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BUDGET SPEECH

DELIVERED BY

HONOURABLE MITCHELL SHARP

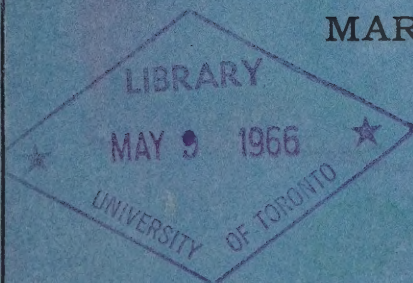
MINISTER OF FINANCE

MEMBER FOR EGLINTON

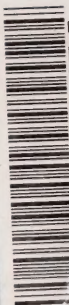
IN THE

HOUSE OF COMMONS

MARCH 29, 1966




ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966



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BUDGET SPEECH

DELIVERED BY

HON. MITCHELL SHARP

MINISTER OF FINANCE

HOUSE OF COMMONS, TUESDAY, MARCH 29, 1966

THE BUDGET

ANNUAL FINANCIAL STATEMENT OF THE
MINISTER OF FINANCE

Hon. Mitchell Sharp (Minister of Finance)
moved:

That Mr. Speaker do now leave the chair for
the house to go into committee of ways and means.

He said:

[Translation]

Mr. Speaker, a year ago my predecessor in
office, the honourable Member for Davenport
(Mr. Gordon), reported to the house that
there had been a great and encouraging
improvement in the economic situation. I am
happy to say that this trend continued in
1965. The fiscal policies he initiated have
resulted in further rapid economic growth.

[English]

Royal Commission on Taxation

For all those concerned with fiscal affairs
and economic policy generally, 1966 will be a
busy and important year. We expect to re-
ceive and publish within the next two months
the report of the Royal Commission on
Taxation which was appointed in 1962 to
review the whole of our federal tax system.

It is clearly desirable that following the
publication of the report sufficient time be
made available for people to study it and
make known their views on it. I found on
taking office that it would not be possible to
take action on the report in the Budget this
year. To avoid any uncertainty about it I
made clear in January that this budget would
not reflect the proposals of the Royal Com-
mission and such is the case.

When the Royal Commission was asked to
make a comprehensive review of our tax
system it was given a difficult task, to which
the Commissioners and many experienced
advisers have devoted much thought and
work. We in turn will be faced with a
difficult and controversial task when we come
to reform our tax laws in the light of its

report. Naturally we will not be able to
consider the Royal Commission's recommen-
dations in isolation. We shall have to take
into account the issues we are discussing with
the provinces concerning federal-provincial
fiscal arrangements. Our reform of the tax
system will be governed by two principles:
equity and efficiency. Governments are going
to need increasing revenues to meet the social
and economic requirements of a nation deter-
mined to abolish poverty—and I personally
share this determination. I believe Canadians
generally are willing to play their part in this
endeavour, but they must be satisfied that
what is asked of them is fair and that the
fiscal system does not stand in the way of
work and enterprise.

Federal-Provincial Fiscal Arrangements

This will be the crucial year for the
Federal-Provincial Tax Structure Committee
which, as the House knows, is conducting a
broad review of the fiscal relationships be-
tween the federal and provincial govern-
ments. One of the important elements under-
lying these discussions is the rapid increase in
the expenditures of the provincial govern-
ments and their municipalities. Many of the
major social requirements of Canadians today
fall within the sphere of provincial responsi-
bility, and provincial expenditures naturally
reflect this trend. I have in mind chiefly
education, health, a variety of welfare re-
quirements, and highways. The trends in
federal expenditure on the one hand appear
to be increasing roughly in line with the
Gross National Product. The requirements of
the provincial governments and their
municipalities on the other hand appear to be
growing at a higher rate. The Provincial
Treasurer of Ontario said in his Budget
Speech last month, "It is becoming increas-
ingly clear that the combined total of provin-
cial and municipal expenditures will continue
to grow at a much more rapid rate than the
corresponding federal commitments."

• (8:10 p.m.)

In our federal system there are three lines of approach to ensuring that the provinces will be able to provide an adequate level of public services. First, the provinces must have access to an appropriate share of the sources of available revenue. This is the tax sharing problem. I have reached the conclusion that it will be possible both to ensure that the provinces have access to sufficient revenues to finance their responsibilities and to ensure that the Federal Government will have sufficient scope to make effective use of fiscal policy for economic purposes. In the second place, there has to be a system of equalization payments made by Parliament to underwrite the ability of the less wealthy provinces to provide adequate services. The present equalization formula is not entirely satisfactory. We would like to develop a formula that would take into account a wider concept of fiscal capacity based on a comprehensive range of provincial revenues. The third element comprises the conditional grants made by the Federal Government to specific provincial programmes.

Here, and this is the central problem, we must find a balance between two important considerations: on the one hand the responsibility we feel here in parliament, and I feel here in parliament as one of its members, to give leadership on matters of national importance, and on the other hand the need to respect provincial responsibilities and provincial judgments about matters within their jurisdiction.

This will be no easy task but, given sufficient imagination and good will, I have no doubt whatever that we can find workable solutions.

Tariffs

In international economic affairs too this will be an important year. The Kennedy round of tariff negotiations sponsored by the members of the General Agreement on Tariffs and Trade must come to a head later this year if the negotiations are to be completed on time. In mid 1967 the powers accorded to the U.S. Government by the Trade Expansion Act expire. It would be a tragic waste if the world trading community failed to make effective use of that imaginative legislation which was one of President Kennedy's great achievements.

For our part, and I believe I speak not only on behalf of the government of Canada but on behalf of all of us in this house, we shall do our utmost to ensure the success of these negotiations.

Tonight I shall be proposing very few changes in the Customs Tariff. They are set forth in the resolution. We have received a

[Mr. Sharp.]

great many suggestions and requests for tariff changes.

I am glad to see, as a former minister of trade and commerce and as one who believes in liberal trade, that the great majority are suggestions for decreases rather than increases. Many of these have considerable merit.

But at a time when we are engaged in one of the largest international tariff negotiations in our history I think the House will appreciate the desirability of using whatever tariff reductions we contemplate to help us obtain better access to foreign markets for our own exports.

International Monetary Cooperation

We are also playing an active part in the international consideration of methods for improving the international monetary system. Supplies of traditional forms of reserves such as gold and the reserve currencies are not likely to be adequate in the future to meet the needs of a growing volume of world trade and payments. We would like to see machinery established which would enable some conscious action to be taken in the future to create international reserve assets much as a central bank influences the growth of the money supply within an individual country. We also want to see improvements in the process whereby countries adjust imbalances in their international position quickly and with the least damage to their trading partners.

In these discussions the Canadian Government has urged that a new reserve asset should be created through the joint action of a group of countries which are able to contribute strong backing for such a new asset and which have had considerable experience of co-operation together in monetary matters. We believe the decisions concerning issues of the new asset should be made within the general framework of the International Monetary Fund, and that all members of the Fund should be entitled to hold and to use the new asset. It is too early to say what the outcome of these discussions will be.

As many people in this house who follow these matters know, there are still differences of opinion among the countries involved as to the need for any new arrangements at this time and as to the form which such arrangements might take. However Canada is making every effort to achieve as wide an area of agreement as possible, consistent with the sound evolution of the international monetary system.

Economic Situation and Outlook

In 1965 the dollar value of the nation's output of goods and services was about 9½ per

cent higher than in 1964. In terms of volume the increase in Gross National Product was about 6½ per cent.

This growth in the economy was broadly based and brought benefits to people in all walks of life and in all parts of the country. Capital investment by governments and by private business was up very sharply; consumers spent substantially more than in 1964. Employment rose rapidly by just over a quarter of a million workers. By the end of 1965 not only had another 208,000 workers been added to our labour force, but by the end of the year the rate of unemployment had been reduced to 3½ per cent. The expansion in the economy, which has now lasted five years, is the most sustained in Canada's history and it shows no signs of slackening.

In recent months indeed it has become evident that the rate of increase in expenditures is becoming too rapid and that we Canadians are trying to take on a bit more than we can handle. In this respect our position is quite different from what it was a few years ago. As late as 1963 the economy, although already expanding, was still operating well below its potential. The rate of unemployment then was much higher, our industries were operating well below capacity, and supplies of resources of all kinds were readily available. In short, even as late as 1963 there was considerable slack in the economy.

This is not the case today. Despite substantial additions to plant and equipment throughout the economy in the last few years and an unusually large growth in the labour force, most sectors of the economy today and most regions of the country are working at or close to capacity. Shortages of skilled labour have become widespread, shortages of other labour have appeared, and unit labour costs have been rising. Our task this year must be to maintain a reasonable balance between the increases in production which are physically possible and the increase in the demands we place on our resources. Since there is no appreciable slack in the economy to take up this year, we cannot look for as large an expansion of output as was achieved in 1965.

• (8:20 p.m.)

The capacity of the economy at any point in time is limited by the availability of manpower in the right places with the right training, and by our stock of industrial plant and equipment. With the labour force growing and with high annual rates of capital investment, our capacity increases year by year. But to achieve the full potential of our economy, as projected for example by the Economic Council for the year 1970, more than this is needed. We have to improve the

quality of our resources and improve our methods of using them. We have to improve the skills of our labour force and organize the labour market more effectively so that people can move readily into the jobs for which they are suited. We have to improve our industrial organization, increase research and development, and ensure that we are using the most modern techniques in industry. The Government has adopted a variety of policies and program along these lines to help bring our capacity up to our full potential. Even so, these will need some years to take full effect. In these terms to speak of a margin between our present performance and our potential may be useful as a guide to assessing and as a spur to developing our longer-term capabilities. But there is no such margin between our present performance and our present capacity.

Our capacity will of course grow in 1966. The labour force will increase by a further 220,000 workers, although not all of them will be located where there are jobs available, nor will they all have the needed skills. There are pockets of unemployment in some regions which will be drawn on more effectively as our manpower programs and area development measures make themselves felt.

During the coming months, with new plant and equipment coming into production, we should be able to achieve higher levels of output per man-hour in many industries. For the nation as a whole, an expansion in the order of 5 per cent in the volume of output over 1965 levels should be within our reach.

However, even this rate of expansion may well be insufficient to meet the additional demands that appear likely to be made on the economy during the current year. Governments at all levels have already indicated that they intend to increase their total capital outlays in 1966 substantially above those of 1965. Growing requirements for schools, universities, hospitals and roads bulk heavily in provincial and municipal budgets. Other forms of government expenditures are almost certain to rise. The latest survey of the investment intentions of private business firms points to a continuation of the present investment boom. In manufacturing for example the business firms apparently intend to increase their capital investment by 20 per cent in 1966 following a similar increase last year. Substantial increases in private investment outside of the manufacturing sector are also expected. With continued high levels of employment and rising rates of wages and salaries, consumers will have more money to spend. Finally we can expect further increases in our exports during the current year. Prospects for wheat sales are good and there is a growing demand for our goods in

many markets, particularly in the United States where the economic expansion appears to be accelerating. Indeed, Mr. Speaker—and I would like to emphasize this point—the change in the outlook in the United States in the past three months is an important influence on our present situation, and necessarily upon the policies which we must follow.

All of this being so, 1966 presents a great challenge to Canadians. We have been successful during these past few years in stimulating the economy until it is now operating close to capacity. Are we now prepared to exercise the moderation—as well as the enterprise—needed to keep the economy operating at full capacity not only in 1966 but in the years to come? In other words can we now pace and prolong our prosperity? That is the question we have to face as a people. If Canadians try to achieve more than is physically possible the result can only be severe strains on key industries, shortages of materials, and rising costs and prices; productivity would be adversely affected and our competitive position would deteriorate. Moreover imports would be drawn in at a rate that would bring about a substantially larger deficit in our balance of payments on current account. In recent months imports have been increasing more rapidly than exports; this was reflected in the increase in our current account deficit in 1965, and is likely to result in a further increase in 1966. This is not unreasonable in present circumstances, but we must keep it within sensible bounds.

Balance of Payments

It has been customary for Canada's external deficit on current account to increase during periods of economic expansion. As the domestic demands on our resources approach the limits of our capacity a larger import surplus makes available additional resources. The additional supplies of machinery, industrial products and consumer goods that we thus obtain from other countries help to avert shortages in Canada and help to avoid increases in prices and costs. They enable us to produce more and to consume more. Thus import surpluses help to alleviate pressures on the economy when it is operating at full capacity. By contrast large import surpluses several years ago, when the Canadian economy was running well below capacity, aggravated our own underemployment.

While there are short-term advantages in having a large current account deficit when the economy is at full stretch, we should not blind ourselves to the disadvantages of running such a deficit year after year. The deficit enables us, through borrowing, to use resources today which, as a nation, we have not yet earned and which will have to be repaid out of future earnings. There are dangers in

trying to enjoy, through borrowing, a standard of living over the years that is higher than our own productivity allows. Borrowing from abroad at a time when we are undertaking a large investment programme is justifiable; but relying on borrowed external capital to sustain a high and rising rate of consumption can be as dangerous a temptation for a nation as for an individual.

From 1962 until our economic expansion gained greater momentum last year we made good progress in reducing our current account deficit. Even in 1965, during a period of rapid expansion, the deficit was much less than in 1959, which was a year of considerable slack. The trend therefore seems to be in the right direction but in the years ahead we must make further progress in reducing this deficit. We have preserved our access to the United States capital market with the co-operation of the United States Government, which recognizes the fact that Canada does not contribute to the United States balance of payments problem. But in the longer run, with the whole-world hungry for capital, we cannot assume that it will always be feasible for Canada to import such large amounts of capital as we have in the past. This is not an immediate problem to be solved this year or next. It is a matter of developing a long-term balance of payments policy consistent with our international position as an open economy in an increasingly competitive world. Our basic approach is two-fold: first, through industrial, commercial and manpower policies, to adapt the structure of the Canadian economy to exploit effectively the most rapidly growing markets at home and abroad; and second, to develop and encourage the growth and use of Canadian savings. Canadians should be prepared to forgo some of the apparent advantages of immediate expenditures in order to invest in the expansion and productivity of their own economy.

Economic Council

Mr. Speaker, it is very useful to me as Minister of Finance to have had the opportunity of reading and studying the reports of the Economic Council of Canada. In its last report the Economic Council of Canada pointed out that the recent rate of expansion of investment spending is clearly not sustainable on a long-term basis. Our economy will grow more if the rate of expansion of investment keeps broadly in line with our longer-term potential requirements instead of fluctuating on the basis of the short-term outlook. We need to plan now to maintain our growth in the years beyond 1966. Investments by governments as well as by private business that can be postponed to a later time will help then to maintain stability and growth.

We have all, in government, in business and in labour circles, received much useful information and advice from our Economic Council on how to make our efforts, our labour and resources more productive; and on the proper choice of priorities.

• (8:30 p.m.)

I find myself generally in agreement with the substance of much that the Council has said in both its First and Second Reviews. I have taken to heart the concern that it expresses and implies about the way time lags can impair the effectiveness of fiscal measures and its concern that we must not lose sight of our longer-term goals in dealing with immediate problems. On the other hand I consider unduly pessimistic its opinion that fiscal measures should not be used to deal with what it calls "shorter term cyclical instability" and I do not share its view that fiscal policy can and should be reduced to an arithmetical formula. Appraisal, judgment and flexibility must have their place if we are to succeed.

While our present situation clearly calls for restraint on the increases in spending, rather than stimulus, this could change fairly quickly. Our objective is a steady and sustained rate of growth. Our intention is to keep our fiscal policies flexible, and readily adaptable to changing circumstances.

Mr. Speaker, if we do not by one means or another succeed in moderating the increase in aggregate expenditures this year the most immediate penalty we shall suffer is an inflationary increase in prices. Public and indeed parliamentary concern over this danger is already evident. It was only a few days ago that we were debating this very issue. As a practical matter in our society this danger cannot be avoided by trying to regulate prices and wages. We must deal with the basic issue which is at the present time an excess of spending power over what is available to meet demands. It is this excess which causes rising prices, costs and profits and which harms those in our society whose economic power and bargaining position are weak.

The Out-turn of Last Year's Budget.

Mr. Speaker, I should like to turn now to a review of our government accounts. The outcome of the Government's accounts over the past year has been laid before you in detail in Part 2 of the White Paper. I propose simply to note a few highlights.

Budgetary revenues in the fiscal year now ending are estimated to have been \$7,673 million. You may recall that my predecessor in office expected, nearly a year ago, that revenues would rise by some 5½ per cent in the absence of any tax changes, and that he proposed to reduce this growth to just over 3

per cent by a reduction in personal income tax, which took effect last July. These revenue forecasts were based on an expected increase in the value of the Gross National Product of about 7½ per cent. In the event, our rate of economic expansion was such that the value of the GNP rose by about 9½ per cent; and revenues rose as a consequence, in spite of the tax cut, by \$493 million, or 7 per cent. This is telling evidence of the considerable momentum which the expansion acquired during the course of 1965.

Expenditures within the framework of the budgetary accounts in the year now at an end are estimated at \$7,707 million. This is only three-quarters of one per cent higher than was forecast in last year's budget.

I should like to congratulate my predecessor in office.

Some hon. Members: Hear, hear.

Mr. Sharp: Indeed, I should like to congratulate him again because the resulting budgetary deficit of \$34 million was the lowest since the fiscal year which ended on March 31, 1957, nine years ago. To all intents and purposes therefore the budget was in balance this year.

Federal revenues and expenditures on the national economic accounts basis, which takes in non-budgetary government transactions affecting the incomes of individuals and businesses, are again explained and reconciled with the budgetary presentation in Part I of the White Paper. I should like to point out to the house, however, that there was a surplus on the National Accounts basis of some \$494 million, compared with the surplus of \$279 million in the previous fiscal year. In terms of the impact of the Federal Government's total receipts and payments upon the incomes of the rest of the community, this healthy federal surplus of nearly half a billion dollars was no more than was needed to absorb a substantial volume of potential private demand which would otherwise have largely been translated into higher prices and a larger deficit on current account in the balance of payments.

The Outlook for Revenue and Expenditure in the Coming Year.

I have described our economic situation and prospects and have reviewed the outcome of Federal Government transactions in the fiscal year now ending. Let me now move ahead to discuss the outlook for the new fiscal year.

First of all, without taking into account the effects of this Budget my advisers would now expect another increase of rather more than 9 per cent in the Gross National Product in 1966. Of this, a little more than 5 per cent would be in volume and 4 per cent in price. That is the prediction my advisers made

without taking into account any of the proposals that I shall make subsequently. Part of the expected price increase is attributable directly to contributions under the Canada and Quebec Pension Plans and to the recently announced increase in the Ontario provincial sales tax, both of which reflect improvements in public and social services.

On the basis of present taxes and this increase in Gross National Product I would expect our budgetary revenues to be about \$8,220 million in the coming fiscal year, an increase of 7 per cent. There are special reasons why this increase in revenue will be less than would normally result from such a large increase in Gross National Product. First of all, the income tax cut of 1965 applied only from July 1 last. In a full fiscal year the cost would be considerably more. In the second place, in 1966 there is a further abatement of three percentage points of basic income tax in favour of the provinces. In the third place, contributions by individuals and employers to the Canada Pension Plan and the Quebec Pension Plan, which commenced at the beginning of this year, are deductible for personal and corporation income tax purposes. Finally, corporation income tax receipts in 1965-66 included some extra revenue in respect of the movement forward of the payment period for this tax which we will not have this coming year.

I am forecasting budgetary expenditures for the coming fiscal year at \$8,450 million representing an increase of nearly 10 per cent above the previous year's level. This takes into account not only the Main Estimates which have already been tabled but the expenditures normally made from supplementary estimates. It also takes account of new legislation and programmes that have been announced. It reflects as well the efforts to which I shall refer in a moment that my colleagues and I have recently made to defer capital expenditures previously planned for this coming fiscal year.

On the basis of these forecasts, before taking into account my following proposals, we would have a deficit of \$230 million in our budgetary accounts. In terms of the national economic accounts there would be a surplus of \$370 million.

Policy and Proposals—General

I turn now to the policies and proposals for dealing with the economic and budgetary situation I have been describing. I take this occasion to express my thanks to the numerous Canadians who, in response to my invitation, sent me their recommendations for this Budget.

Some hon. Members: Hear, hear.

Mr. Sharp: I received a great variety of suggestions, some of them quite unorthodox, [Mr. Sharp.]

which I may reveal at some time, but many of them, indeed a very large number, were constructive. If I may be pardoned a parenthetical remark, a great many of the letters said either expressly or implicitly, "I did not know you were interested in my views."

Mr. Fulton: They will find out later that you weren't.

Mr. Sharp: However, I have never regretted having sent out this general invitation.

It is clear that action should be taken promptly to moderate the present boom and to maintain a steady and sustainable rate of growth in our economy. We must avoid the kind of boom that will lead to a bust.

In seeking this major objective we wish also to protect and enhance our productivity and our ability to compete in trade with other nations. We also want to restrain the increase in our balance of payments deficit.

To achieve these aims we must moderate the increase in the total of demands being placed on the Canadian economy this year and next year. These demands include those of governments, of business, of consumers, and of those who buy our exports. We do not want to restrain export demands—we need the proceeds of exports to pay for imports and meet our very heavy obligations in respect of interest and dividends payable outside Canada.

We should restrain in some degree the increase in all the other demands this year on Canada's production.

• (8:40 p.m.)

Government Expenditures

First in regard to our own government substantially higher this new fiscal year than in the one just closing—higher by some \$743 millions, or 9½ per cent. Since last August we have been reviewing our construction programs and deferring a number of projects—both those announced at the time and others that came up subsequently for decision.

Now that we are better able to appraise the total economic situation this year, and our part in it, the Government believes it should exercise further restraint upon its own expenditures, particularly in the field of construction, during this coming fiscal year.

As a consequence the Government has made several decisions. First, that it will not undertake any substantial new programs or projects requiring expenditures in 1966-67 that are not already provided for in the Estimates or are already announced, except for what are clearly unforeseen emergencies. This will mean deferring a number of plans that have been under consideration, or which we have been requested to undertake by the provinces or others.

Secondly, we will limit our departmental construction programs this year to a total that will be 10 per cent less, in terms of expenditures in 1966-67, than the total figure of \$348 million submitted in the Main Estimates now before the House. This will require deferment of a number of projects already included in the Estimates or otherwise announced. We have already decided to defer or re-schedule a number of specific projects which we think can and should be deferred or re-scheduled at this time, among which the following are examples:

(a) a grain elevator at Prince Rupert that we had intended to proceed with immediately but on which the tenders for construction came in at figures much higher than we thought were necessary;

(b) the proposed new Taxation Building in Ottawa, the National Museum, the National Research Council Structures Laboratory, and the commencement of buildings on the Satellite Experimental Farm;

(c) some less urgent work at airports in various parts of the country;

(d) a readjustment of the timetable for the next phase of the Northumberland Causeway project in order to minimize the pressures on the peak summertime employment market and maximize winter employment possibilities;

(e) some harbour and marine works in coastal areas where there is serious pressure on the construction industry;

(f) some smaller public buildings in Ontario and British Columbia.

I regret, and I am sure everyone in this house regrets, that it is necessary to defer these projects and others as well to which I have not referred, but I feel that it is essential to do so if we are to avoid an unreasonable level of demand on the economy this year. I hope that the provincial governments, whose construction programs have apparently increased even more than ours this year, will be able to contribute to this desirable restraint upon aggregate demand by holding back until a later year some of the projects they have scheduled for this year. I recognize that some of their requirements—particularly for schools and universities—are urgent, but there are others—for example some highway building—that could be delayed at some inconvenience but without serious economic or social consequences.

In order to permit deferment of projects, we have already agreed with the provincial governments to place before you amendments to some of our legislation to extend the deadlines for federal grants for various construction programmes. May I say to hon. members of the house that I know that this policy that I am announcing will be accepta-

ble to most provincial governments across this country who are just as concerned as we on this side with the excessive demands that may be placed upon the construction industry this year. This was announced last August 2. We are now prepared to agree to delaying completion of centennial projects to which we are contributing, so that there will be no arbitrary pressure on this score in seeking to complete them by 1967. As a practical matter there is nothing we can do to reduce the abnormal pressure to complete work on many projects in Montreal that are part of Expo '67 or related to it. We are asking our Crown corporations to exercise restraint in respect of any of their projected building plans which can be deferred, as the Bank of Canada has done.

Income Tax

Turning now from expenditures to revenues, I shall lay before you a number of proposals affecting taxation. In the main these are designed to moderate the increase in demand of private individuals and business firms.

Let me begin with the Income Tax, the keystone of our tax system. It is the fairest of our taxes. It must be reformed however and made fully effective if it is to be really equitable. I believe it should be used by both Parliament and the provincial legislatures.

I should recall here some remarks I made in answer to press inquiries following the Budget Speech of the Provincial Treasurer of Ontario. He had announced Ontario's decision to increase its personal income tax for the purpose of financing its growing expenditures, a decision which has recently been embodied in a Bill placed before the Ontario Legislature. He made clear that Ontario would need to take such action whether or not there was an additional abatement of the federal tax. I said: "Any province is quite free to increase its income tax under its present arrangements with us—and I hope it will be just as free to do so under the new arrangements we will be working out this year. I think there should be as little suggestion as possible in our new arrangements that the provinces are entitled to use only a specified portion of the income tax and that in going beyond it they are somehow indulging in double taxation... It is of course the right of a provincial government to decide what is the right combination of taxes for it to use, having in mind both equity and economics. We and they should both take into account as best we can what one another is doing." I regard what Mr. Allan has said and done as being quite consistent with what I am proposing tonight.

[Translation]

We will discuss these matters in the Tax Structure Committee this year and no doubt

in a full federal-provincial conference of Prime Ministers and Premiers as well. I hope we shall be able to come to understand each others' views on the use of the personal income tax by both levels of government, and that each will accept responsibility for the extent to which it uses this tax, knowing the others' views. I would hope, moreover, that the provinces will be prepared to continue to follow our lead in regard to the various detailed provisions of the law in order to minimize the trouble to which taxpayers may be subject in preparing their returns.

[English]

Last year Parliament reduced the income tax by 10 per cent of the basic tax with an upper limit of \$600. This was done on the basis of the Government's appraisal of the economic situation at that time and the desirability of stimulating the expansion and growth of the economy.

Some hon. Members: Oh, oh.

Mr. Sharp: It is quite clear, Mr. Speaker, from what I have been saying that this stimulus served to make 1965-66 the most prosperous year in Canada's history.

The stimulus has served its purpose and is no longer appropriate. As a consequence I feel we should now withdraw most of last year's tax cut.

In making the change I feel that we should,

however, lighten the load upon those with the lowest incomes. I do so having considered the total tax load being imposed by all governments in all forms.

• (8:50 p.m.)

Accordingly I now propose that effective June 1 we reduce the present limit on the tax cut from \$600 per annum to \$20 per annum. At the same time I propose that the rate of the tax cut, now 10 per cent, be changed to 20 per cent. With the new limit of \$20 only the lowest brackets will benefit from this change in the rate. The result of these changes will be that those with average or better than average incomes will revert to tax levels slightly below the levels that prevailed in 1964. Those with lower than average incomes will pay less tax than they did at that time and less than they are now paying. This new rate of tax will prevail after June 1 this year and will be reflected in the deductions then made. The tax liability for the year 1966 will be a blend of what was enacted in 1965 to be in effect this year and the revised rates proposed to apply after June 1. I would ask permission at this point to insert in *Hansard* tables to illustrate the effect of these changes.

Mr. Speaker: Is that agreed?

Some hon. Members: Agreed.

[Editor's note: The tables referred to above are as follows:]

TABLE 1
TO ILLUSTRATE PROPOSED PERSONAL INCOME TAX CHANGE
Single Taxpayers—no dependants

Income	Net Federal tax for 1966 if no change made	1965 tax cut to be cancelled	New tax cut for a full year	Change in tax for a full year		Net Federal tax for 1966
\$	\$	\$	\$	\$	%	\$
1,300.....	15	2	4	- 2	- 15	13
1,500.....	29	4	9	- 4	- 15	26
2,000.....	65	10	20	- 10	- 15	59
2,500.....	110	17	20	- 3	- 3	108
3,000.....	156	24	20	+ 4	+ 2	158
5,000.....	390	59	20	+ 39	+ 10	414
7,500.....	762	115	20	+ 95	+ 13	819
10,000.....	1,214	184	20	+164	+ 14	1,313
15,000.....	2,396	363	20	+343	+ 14	2,602
25,000.....	5,537	600	20	+580	+ 11	5,885
50,000.....	15,333	600	20	+580	+ 4	15,741

The amounts shown above as net Federal tax are after deducting an abatement of 24% in accordance with current federal-provincial arrangements. The Federal tax in Quebec is lower because of additional abatements but the amount of tax cut is the same in each case. The amounts shown do not include provincial income tax or the old age security tax. It was assumed that taxpayers take the optional standard deduction of \$100.

For 1966 the "1965 tax cut" will remain in effect for the first 4/10ths of the year and the "new tax cut" will be in effect for the remainder of the year. The "Net Federal tax for 1966" is after deducting a blend of these two tax adjustments.

[Mr. Sharp.]

TABLE 2

TO ILLUSTRATE PROPOSED PERSONAL INCOME TAX CHANGE
Married Taxpayer—no dependants

Income	Net Federal tax for 1966 if no change made	1965 tax cut to be cancelled	New tax cut for a full year	Change in tax for a full year		Net Federal tax for 1966
\$	\$	\$	\$	\$	%	\$
2,300.....	14	2	4	— 2	— 15	13
2,500.....	29	4	9	— 4	— 15	26
3,000.....	65	10	20	— 10	— 15	59
4,000.....	156	24	20	+ 4	+ 2	158
5,000.....	266	40	20	+ 20	+ 7	278
7,500.....	606	92	20	+ 72	+ 12	649
10,000.....	1,019	154	20	+134	+ 13	1,100
15,000.....	2,132	323	20	+303	+ 14	2,314
25,000.....	5,195	600	20	+580	+ 11	5,543
50,000.....	14,915	600	20	+580	+ 4	15,263

The amounts shown above as net Federal tax are after deducting an abatement of 24% in accordance with current federal-provincial arrangements. The Federal tax in Quebec is lower because of additional abatements but the amount of tax cut is the same in each case. The amounts shown do not include provincial income tax or the old age security tax. It was assumed that taxpayers take the optional standard deduction of \$100.

For 1966 the "1965 tax cut" will remain in effect for the first 4/10ths of the year and the "new tax cut" will be in effect for the remainder of the year. The "Net Federal tax for 1966" is after deducting a blend of these two tax adjustments.

TABLE 3

TO ILLUSTRATE PROPOSED PERSONAL INCOME TAX CHANGE
Married Taxpayer—2 dependent children eligible for family allowance

Income	Net Federal tax for 1966 if no change made	1965 tax cut to be cancelled	New tax cut for a full year	Change in tax for a full year		Net Federal tax for 1966
\$	\$	\$	\$	\$	%	\$
3,000.....	22	3	7	— 3	— 15	20
3,500.....	58	9	18	— 9	— 15	53
4,000.....	100	15	20	— 5	— 5	97
5,000.....	199	30	20	+ 10	+ 5	205
7,500.....	519	79	20	+ 59	+ 11	554
10,000.....	916	139	20	+119	+ 13	987
15,000.....	1,973	299	20	+279	+ 14	2,141
25,000.....	4,986	600	20	+580	+ 12	5,334
50,000.....	14,665	600	20	+580	+ 4	15,012

The amounts shown above as net Federal tax are after deducting an abatement of 24% in accordance with current federal-provincial arrangements. The Federal tax in Quebec is lower because of additional abatements but the amount of tax cut is the same in each case. The amounts shown do not include provincial income tax or the old age security tax. It was assumed that taxpayers take the optional standard deduction of \$100.

For 1966 the "1965 tax cut" will remain in effect for the first 4/10ths of the year and the "new tax cut" will be in effect for the remainder of the year. The "Net Federal tax for 1966" is after deducting a blend of these two tax adjustments.

[Mr. Sharp.]

Mr. Sharp: Mr. Speaker, the Department of Finance estimates that this change in the income tax will increase our revenues at a rate of approximately \$210 million per annum. The direct effect in the fiscal year 1966-67 should be about \$140 million. It is designed to reduce moderately the rate of increase of consumer expenditures.

I am proposing a few technical changes in the Income Tax Act.

The first is to make more clearcut and specific arrangements in regard to charitable donations. All charitable organizations will be asked to register and to file annual returns of information. Only donations to such registered charitable organizations will be permitted as deductions from income in future years. This will not however affect the existing provision whereby a taxpayer may deduct up to \$100 for charitable contributions or medical expenses without submitting receipts. In addition, donations to certain specified classes of charitable organizations outside Canada will be allowed as deductions. The essential points are given in the resolution and the Minister of National Revenue can explain the plans regarding registration when the resolution is under consideration.

Like all Ministers of Finance, I am concerned about the loopholes that remain in the law despite the vigilance of all my predecessors, and I am proposing a number of provisions on this score.

I should like to draw attention to some of them. In recent months there has been evidence of increasing abuse of the section of the Act providing special tax treatment for deferred profit sharing plans. In 1960 and 1961 my predecessor, then the Hon. Member for Eglinton, with the worthiest of motives, introduced a section in the Act to provide for these plans, which he described as an important piece of social legislation. Since then various businessmen and their professional advisers have exploited this well-intended but vulnerable section in various ways. Essentially what happens in typical cases is that contributions of profits from a business, made deductible in computing income for tax purpose and held in a tax free fund, which were intended to benefit the employees of the business generally are being diverted to benefit a few key people, chief shareholders or their relatives or heirs. The Minister of National Revenue will not accept any more deferred profit sharing plans for registration until we deal with the matter by a revision of the Act. There is a fairly general paragraph in the Resolution covering the essential

points, which would apply to existing plans as well as new ones.

In the income tax regulation there are a number of special rates of capital cost allowances that have been granted for limited periods as inducements to action of one kind or another. These will be allowed to expire at the dates now specified, with one exception, namely the special rate on property acquired for the prevention of water pollution. This will be extended until the end of December 1967. Some of these special capital cost allowances are being replaced by grants, which in our view represent a more effective and fairer method of encouraging investment in designated areas, and industrial research and development.

The Resolution includes a paragraph to extend from April 1967 until April 1968 the deadline for the commencement of production for manufacturing projects in designated areas, on which construction has already started, if they are to qualify for the three-year exemption from income tax. Some of these projects are being delayed by events beyond the control of the companies concerned. The purpose of this action is to reduce the pressure that now exists to compete strenuously for equipment, materials and skilled labour which are in short supply. This is similar in principle to the proposed extension of the deadlines in the incentives offered provinces and municipalities to undertake certain types of construction work.

We also propose to extend the three-year tax exemption for new mines to wells for extracting potash by the solution method.

Withholding Tax

I come now, Mr. Speaker, to a major change affecting the sale of Canadian bonds to foreign buyers. The 15 per cent non-resident withholding tax on interest now constitutes in some measure an impediment to the sale of Canadian bonds in the United States and Europe.

In order to improve the market for such securities I propose that interest on bonds and debentures dated after April 15, 1966, issued by the federal or provincial governments or their agencies guaranteed by those governments, or issued by municipalities, or by hospitals and educational institutions guaranteed by a province, shall be exempt from this withholding tax. I have given consideration to whether this exemption should be extended to bonds and similar obligations

[Mr. Sharp.]

issued by businesses or individuals in Canada but I have concluded that I should not come to a decision on this point pending the general review and revision of the Income Tax Act.

This new exemption from the withholding tax will not reduce our revenue from outstanding issues, interest on which is already subject to the tax and will remain subject to it. It will eliminate our revenue from new issues that we would otherwise have expected to yield a tax, and this may cost the Treasury two or three million dollars in 1966-7. There should on the other hand be some saving to provinces and municipalities in what it is necessary to pay in interest to foreign lenders. I hope it will enable some borrowing to be done in Europe, despite the high cost of borrowing there.

I have described the steps to be taken to moderate the growth of government expenditure and consumer spending. I am going to propose three important measures affecting private capital investment. These are complementary, and taken together, should in my judgment effect a reasonable but not excessive degree of restraint on the rate of increase in investment demand.

Sales Tax and Excise taxes

First, the sales tax. I intend to review it thoroughly in the light of the Royal Commission report, our experience with the Tax and the criticisms we have received. Meanwhile several changes should be enacted now.

Beginning in 1963 the house will recall that the exemption from sales tax of building materials and of production machinery and equipment was withdrawn in several stages. The revenue that accrued from this step made a vital contribution to the improvement of the financial position of the Federal Government and the restoration of confidence in our fiscal capacity. It has not stood in the way of a rapid increase in capital investment, and indeed in the past few months has probably assisted in moderating an excessively rapid rate of increase. For a country such as Canada, however, where the ability to compete internationally is so important and where we must maintain a high rate of investment in modern machinery and equipment in order to achieve the increases in productivity which we all want, we should not have a sales tax on—

Some hon. Members: Hear, hear.

Mr. Sharp: I repeat, Mr. Speaker, that we should not have a sales tax on production machinery and equipment as a permanent feature of our system.

Some hon. Members: Oh, oh.

Mr. Sharp: On the other hand, the immediate removal of the tax on the whole of this category at the present time would only tend to exaggerate the capital investment boom now in progress.

● (9:00 p.m.)

There is however a certain type of machinery and equipment with very short lifetime, expenditures on which are really part of the current costs of production and which bear significantly upon our export trade and upon production that competes with imports. I refer to dies, jigs, fixtures and moulds, and tools for use in production machinery for shaping and working materials. I have come to the conclusion that these should be made exempt from sales tax forthwith. This is covered in the resolutions that I am placing before you and will go into effect provisionally at midnight tonight.

I next propose that Parliament legislate now to provide for the future restoration of the exemption for the remaining categories of production machinery and equipment. I propose that the exemption be restored partially a year hence, at the beginning of April 1967, by a reduction in the rate then by 5 percentage points, and that it be restored fully a year later, at the first of April 1968. Should the economic circumstances change in the meantime and make an earlier removal of this tax on machinery and equipment economically desirable, I will not hesitate to recommend to parliament in my next Budget that the remaining tax be removed at an earlier date.

The advance enactment of this exemption is proposed deliberately so that businesses can take it into account in their planning. It will constitute some inducement to defer the acquisition of machinery and equipment at a time when the expenditures on these categories seem likely to be exceedingly high, if not in fact excessive, judging from the figures that have just been published in the survey of intentions for private and public capital expenditures this year.

I am not convinced that the exemption from the sales tax for building materials should be restored. The arguments for this are not as strong as those that apply to machinery and equipment, and I am reserving judgment on it until I am able to review our tax system as a whole.

I am also recommending a few minor revisions in the sales tax which will be found set forth in the resolutions and can best be

explained and discussed when they are under consideration.

I renew the undertaking given last year by my predecessor, the hon. member for Davenport (Mr. Gordon), that if the considerations of the Special Committee of the House on Food and Drugs lead it to recommend that drugs should be exempt from sales tax as part of a comprehensive and effective programme to reduce the prices of drugs, then the Government would be prepared to recommend such action by means of a special statute covering all the measures required to give effect to such a programme.

I have considered the various special excise taxes that are imposed on a number of commodities under the Excise Tax Act. I cannot afford any wholesale revision of these until it can be done in the light of a general programme of reform. I am proposing a minor simplification of the excise tax on electronic tubes and cigarette lighters.

The reduction in revenue consequent upon the actions I have proposed for immediate application in regard to the Excise Tax Act would be \$21 million in the coming fiscal year. The cost of the first reduction in the present rate of sales tax on production machinery and equipment is estimated to be an additional \$63 million in the fiscal year 1967-68. Given the present economic and budgetary outlook, this prospective reduction in revenue and the further reduction in the following year will have to be replaced, when the time comes, by increases in other tax revenues.

Special Temporary Measures

The proposal to provide now for the future reduction and later elimination of the sales tax on production machinery and equipment is the first of my three proposals designed to encourage the postponement of some private investment. I now wish to propose two temporary measures with the same objective.

In designing these measures I have been especially concerned to avoid tax increases of a kind that would get built into production costs and impair our future competitive position. After reviewing measures we have taken in the past, such as the deferred depreciation rules of 1951 and 1952 with which I was closely concerned as an official, and the well known Swedish tax free reserve plan, and several other possibilities put forward by the Department, I have selected two which I think are appropriate to our present Canadian circumstances. They can be brought quickly into effect, they will provide prompt pressures upon and inducements for business to defer capital expenditures, they will not add to the costs of production, and they will

help business to maintain capital expenditures in future years. Each can be terminated on short notice without serious effects, should our economic circumstances change substantially.

The first measure has been put into effect by the government in an amendment to the Income Tax Regulations that comes into effect tonight. It reduces the capital cost allowances that may be claimed for various classes of capital assets acquired during the period between now and October 1, 1967—about 18 months. This appears to me the period over which special inducements to postpone business capital expenditures are likely to be necessary, though of course this is a difficult matter to forecast. As I have said, these are the kinds of measures that can be changed quickly, and without any long delays.

This measure will restrict capital cost allowances for certain classes of assets during the three-year period following acquisition, by applying the normal rates to part only of the capital cost of the assets. It will apply to the classes that include most kinds of buildings, machinery and equipment, but not to heavy construction equipment, pipelines or the generating and distributing equipment of public utilities.

For those who need to know more precisely what is affected I should make it clear that the classes involved are numbers 3, 6, 8, 9, 10, 11 and 16. The effect of this measure is approximately the same as if we had reduced the rates for classes 3, 6 and 8 by one-half, and for the other classes by ten percentage points. The exact details can be found in the Regulations which I will ask leave to table at the end of my speech.

It will not apply to property acquired under written contracts which can be shown to have existed tonight, to assets which have been used before tonight, nor to assets which are acquired for installation and use in designated areas, or those covered by the special temporary classes established as incentives.

We have for many years used increased rates of capital cost allowances as inducements for accelerating business investment. Indeed we have been using them recently. It is logical that we should now use reductions in these allowances to induce business to defer a part of its investment.

The other temporary measure is designed to divert and immobilize temporarily a modest portion of the flow of funds that is the chief source of finance for the increasing capital expenditure of businesses. I am proposing a wholly new device—a refundable tax on cash profits. It would be payable by all corporations not exempt from tax under Section 62 of the Income Tax Act, and by

certain types of trusts on specified types of income. The base for the tax would be the taxable income of the company for the current year, less the income tax payable thereon, plus capital cost allowances deducted in determining income, plus depletion allowances and certain other items that are specified in the Resolution. In determining the tax base we would deduct from this adjusted net taxable income principal payments due and made on the debt of the company which had an original term of three years or longer under written loan contracts existing tonight. This is more precisely described in the Resolution. There will be a general deduction of \$30,000 which should be adequate to mitigate the impact of the tax on smaller businesses which do not have ready recourse to the capital market. The appropriate rate of tax has involved a difficult judgment but I have decided on 5 per cent bearing in mind the many items added and deducted in establishing the base. Further details are given in the Resolution, and the measure itself will be incorporated as a separate temporary part added to the Income Tax Act.

This refundable tax would be payable monthly commencing in May this year for a period of 18 months. The monthly payments would be made on an estimated tax base computed by reference to the present or immediately preceding tax year subject to adjustment at the end of the period.

The amounts received under this new measure would be repaid, with interest at 5 per cent, after an interval of 18 to 36 months after receipt. The specific period within this range would be determined by the Government in the light of the economic prospects as assessed late in 1967.

There will of course be problems to be solved in working out the details of a novel measure of this kind, and I shall welcome constructive suggestions from those affected by it or those expert in tax matters or economics as to how we can best accomplish the essential purpose of this measure with the least amount of unnecessary disruption. Some changes in investment plans should result, of course, since this is the purpose of the measure. I would appreciate receiving such suggestions first in writing, or in the House during the debate on the Budget itself, so I can take them into account as early as possible, in the framing of the legislation.

● (9:10 p.m.)

It is difficult to assess with any accuracy the quantitative effects of these new measures relating to capital expenditures. The temporary reduction in capital cost allowances below normal levels will act in the

right direction in bringing about some postponement of capital expenditures. It will also increase our corporate tax revenues. The prospect of the reduction and later elimination of the sales tax on machinery and equipment will be a more powerful incentive to postpone capital expenditures. The refundable tax on cash profits should yield I would think something of the order of a quarter of a billion dollars in a full year. All in all, I would think it reasonable to expect that these three measures taken as a whole might result directly and indirectly in a reduction by a third of a billion dollars this year of the intended increase in business investment expenditure.

That increase—not the total; just the increase itself—was estimated at about one and one-quarter billion dollars in the Public and Private Investment Outlook for 1966. This reduction in the rate of increase would be only a moderate one, but should serve to bring the total increase much closer into line with the increase in our capacity to produce what is demanded taking into account that there is some spare capacity available in designated areas. Similarly it should restrain the increase that would otherwise occur in the current account deficit of our balance of payments. The aftermath of these deferments should help to maintain a high level of business investment in future years and thus contribute to sustained growth, because the house will have noticed that all these measures have a very stimulating effect, eventually, on the level of construction, and thus help to stretch out our business prosperity.

Resulting Budgetary and Cash Position

Drawing together the effects upon our revenues and budget position of the results of these various measures requires consideration of the effect of them on total expenditures and incomes and thus on our revenues from existing taxes. The department estimates that the budget measures as a whole should restrain the increase in Gross National Product to something over $8\frac{1}{2}$ per cent instead of over 9 per cent as I mentioned before the tax changes. One must recognize that many imponderables must be assessed in any such calculation. We hope and expect that most of this reduction would consist of a smaller increase in costs and prices.

Taking this reduction in Gross National Product into account I estimate that our budgetary revenues, after the tax changes will be \$8,300 million. This excludes the yield of the refundable tax which cannot properly be included in revenues for accounting purposes, though it has similar economic effects and I am assuming the statisticians will

include it in revenues for the purpose of the national economic accounts.

With the consent of the House I would like to place on *Hansard* here a table summarizing our expected revenues from various sources making up this total of \$8,300 million, and the tax revenues which go into the Old Age Security Fund. I am including for comparison our preliminary figures for revenues in the current fiscal year.

Mr. Speaker: Is this agreed?

Some hon. Members: Agreed.

Mr. Sharp: The table is as follows:

[*Editor's Note: The table above referred to is as follows:*]

	1965-66 Preliminary \$ million	1966-67 Forecast after Tax Changes \$ million
Personal Income Tax	2,150	2,378
Corporation Income Tax	1,610	1,731
Non-resident withholding tax	170	177
Estate tax	107	101
Customs duties	676	749
Sales tax	1,385	1,475
Other duties and taxes	734	773
Total taxes	6,832	7,384
Non-tax revenues	841	916
Budgetary revenues	7,673	8,300
Old age security fund revenues	1,163	1,277
Total revenues	8,836	9,577

Setting these revenues against our budgetary expenditures of \$8,450 millions leaves us with a budgetary deficit of \$150 million for the new fiscal year—again disregarding the yield of the refundable tax. In terms of the national economic accounts, where I am including as revenue the yield of this refundable tax, I am forecasting a surplus of about \$615 million, compared with \$494 million in the year now closing. These figures do not include the accumulation of funds in the Canada Pension Plan, which will be shown separately in the statistics. Such accumulation will be an additional source of national savings, as will be the corresponding item for the Quebec plan. I shall include with the budget papers as an appendix to *Hansard* if the House will agree, tables giving these

national economic accounts figures and their reconciliation with the budgetary accounts.

We have of course many substantial transactions outside our budgetary accounts which must be taken note of in assessing our overall position. Our loans and investments will be higher this coming year than in the year now closing, chiefly because of Expo 1967 whose cash requirements will be at a peak this year. Another large factor will be our disbursements of Municipal Development Loans which will be high as projects are completed and interim financing is refunded by drawing upon the loans we have approved. On the other hand our non-budgetary receipts, apart from public debt transactions, will be down modestly, apart from the refundable tax—which I would leave out of account for the present, as well as any change in the level of our exchange reserves. The net balance of non-budgetary items on this basis I would expect to be a requirement of about \$350 million compared with \$163 million last year. Adding this to the budget deficit would give a total requirement for cash of about \$500 million this year compared to \$187 million shown in the White Paper for the year now closing.

I do not propose that we should disburse the funds we receive from the refundable tax as we do normal revenue. Instead I would plan to hold it as an addition to whatever cash balances we would otherwise hold, unless economic circumstances change and make it economically desirable for us to borrow less and ease the pressure on the capital market.

I should also recall that in our balance of payments arrangements with the United States the government has agreed that it would aim to reduce its exchange reserves to a range that would center around \$2,600 million. This would involve a reduction of an order of magnitude of about \$200 million from the figure at the beginning of this month. However, the Government of Canada may either have to purchase Canadian securities held in the United States or itself borrow in the United States, depending on the requirements of our balance of payments and the borrowing which others do outside Canada. Consequently I believe we should not try at this time to forecast the effect of these prospective changes in our reserves and related transactions upon our requirements for cash in Canada.

Our cash balances now, very near to the beginning of the year for which we are budgeting, are reasonably high. The extent to which we should draw them down rather than borrow to meet our cash requirements will be a matter to be decided upon from

time to time during the year depending upon the state of the capital market, monetary policy and other economic circumstances. In this new fiscal year it is evident that our debt management decisions and operations will have an important role to play in our general economic policy.

I should point out that the accumulation and investment of funds under the Canada Pension Plan, though large, will have little bearing upon our accounts or financing since we lend all these funds, except working balances, to the provincial governments or their agencies in accordance with the Canada Pension Plan act.

Concluding Remarks

Before concluding I should like to make two points briefly. The Economic Council for Canada in its first Annual Review, in describing the conditions and policies which it considered necessary to reach our economic goals—as indicated in the Act establishing the Council—called for “Responsible restraint in both wage demands and business pricing policies, with clearer recognition that failure to maintain reasonable price and cost stability will frustrate the attainment of other basic economic objectives, such as balance of payments viability and high employment, while also comprising our capacity to achieve steadily advancing living standards for the Canadian people, reasonable profitability of business, and the maintenance of purchasing power of pensions and savings.” This is a time when all Canadians should observe such restraint, in our own long term interest, and resist the temptation to exploit the bargaining positions which the present boom presents to many in the country.

Secondly, we need more saving on the part of Canadians, and more investment in the capital assets of Canada’s economy—private

and public. We need it now more than ever before in normal peacetime. A modest increase in saving at the cost of reducing personal expenditure in boom times is a means by which Canadians, as individuals, can contribute to the success of national economic policy. The poor that remain among us cannot be expected to save more this way—but those of average incomes and better can.

[Translation]

I need hardly say that as a new Minister of Finance I would have preferred the main features of my first Budget to be proposals to reduce taxation. But we can all take satisfaction from the fact that our problems are no longer the problems of overcoming slackness or stagnation but those of managing growth and prosperity. Our task is to sustain the longest economic expansion in Canadian history.

[English]

I want to take this opportunity to express my warm appreciation of the contribution to this expansion that was made by the policies of my predecessor the hon. Member for Davenport (Mr. Gordon).

● (9:20 p.m.)

I believe the measures I have proposed tonight will serve to moderate but by no means eliminate the increase in demand on our economy this year. Our situation calls for some restraint in expansion; it does not call for deflation. As a nation we should ease up our foot on the gas pedal, not slam on the brakes. We want growth, but sustained growth, not erratic fluctuations. The keynote of this budget is moderation. This is what is needed today if we are to guide our economy towards successive years of expansion and continued prosperity.

RESOLUTIONS

CUSTOMS TARIFF

1. Resolved, that Schedule A to the *Customs Tariff* be amended by striking out tariff items 945-1, 7905-1, 20925-1, 21045-1, 23505-1, 24100-1, 26325-1, 41105-1, 42205-1, 44043-1, 44047-1, 44125-1, 70500-1, 70505-1, and 84805-1, and the enumerations of goods and the rates of duty set opposite each of those items, and by inserting therein the following items, enumerations of goods and rates of duty:

Tariff Item	—	Rates in Effect Prior to Rates Proposed in this Budget					
		British Preferential Tariff	Most- Favoured- Nation Tariff	General Tariff	British Preferential Tariff	Most- Favoured- Nation Tariff	General Tariff
945-1	Feeds for use exclusively in the feeding of trout..... on and after July 1, 1968	Free	Free	25 p.c. 25 p.c.	Free	Free	25 p.c. 25 p.c. (on and after July 1, 1966)
7905-1	Carnation cuttings in their first year of introduction.	Free	Free	Free	Free	Free	Free 30 p.c.
20925-1	Potassium chloride..... (Applicable to December 31, 1967)	Free	Free	25 p.c.	Free	Free	25 p.c. (Applicable to December 31, 1966)
21045-1	Sodium hypochlorite in solution..... (Applicable to December 31, 1967)	15 p.c.	20 p.c.	30 p.c.	15 p.c.	20 p.c.	30 p.c. (Applicable to December 31, 1966)
23505-1	Liquorice blocks, granules, paste or powder, not sweetened.....	Free	12½ p.c.	17½ p.c.	Free	12½ p.c. 15 p.c.	17½ p.c. 25 p.c.
23705-1	Deuterium oxide or heavy water; uranium in the form of pigs, ingots, billets or bars..... on and after July 1, 1963	Free	Free	25 p.c. 25 p.c.	Free	Free	25 p.c. 25 p.c. (on and after July 1, 1966)
24100-1	Litharge and mixtures or combinations of litharge with other materials, such mixtures or combinations to contain not less than 50 per cent by weight of litharge, for use exclusively in the manufacture of storage battery plates.....	Free	Free	Free	Free	Free	Free 20 p.c.
26325-1	Compounds of tetramethyl lead, in which tetra- methyl lead is the preponderant constituent by weight..... (Applicable to December 31, 1967)	12½ p.c.	12½ p.c.	25 p.c.	12½ p.c.	12½ p.c.	25 p.c. (Applicable to December 31, 1966)

41105-1	Machines, logging cars, cranes, captive balloons having a volume of 150,000 cubic feet or more, blocks and tackle, wire rope, but not including wire rope to be used for guy ropes or in braking logs going down grade, and parts of all the foregoing, for use exclusively in the operation of logging, such operation to include the removal of the log from stump to skidway, log dump, or common or other carrier.	10 p.c.	12½ p.c.	20 p.c.	10 p.c. 25 p.c. 20 p.c.	12½ p.c. 25 p.c. 27½ p.c.	20 p.c. 35 p.c. 50 p.c.
42205-1	Concrete road-paving machines, self-propelling, end loading type, with a capacity of 21 cubic feet of wet concrete or more; concrete and asphalt road finishing machines; form graders; sub-graders; combination excavating and transporting scraper units; concrete mixers, transit type; dump wagons or trailers, having a capacity of 10 cubic yards or over, not self-propelled; back-filling machines and equipment, mounted on self-propelling wheels or crawling traction, semi- or full-revolving boom and scraper type; steam or air driven pile hammers or extractors; truck turntables; all the foregoing of a class or kind not made in Canada, parts thereof.	Free	7½ p.c.	12½ p.c.	Free Various	7½ p.c. Various	12½ p.c. Various
	Aircraft, not including engines, under such regulations as the Minister may prescribe:						
44043-1	When of types or sizes not made in Canada, on and after July 1, 1967	Free Free	Free 15 p.c.	27½ p.c. 27½ p.c.	Free Free	Free 15 p.c. (on and after July 1, 1966)	27½ p.c. 27½ p.c.
44047-1	Aircraft engines, when imported for use in the equipment of aircraft: When of types or sizes not made in Canada, on and after July 1, 1967	Free Free	Free 15 p.c.	27½ p.c. 27½ p.c.	Free Free	Free 15 p.c. (on and after July 1, 1966)	27½ p.c. 27½ p.c.
44125-1	Guns and rifles of a class or kind not made in Canada; parts thereof.	Free	7½ p.c.	30 p.c.	Free 10 p.c. 15 p.c.	7½ p.c. 22½ p.c. 20 p.c.	30 p.c. 35 p.c. 30 p.c.
44725-1	Well points, well screens, well strainers, pitless well heads; all the foregoing of a class or kind not made in Canada, parts thereof.	Free	7½ p.c.	12½ p.c.	Free 10 p.c.	7½ p.c. 22½ p.c.	12½ p.c. 35 p.c.
57210-1	Oriental rugs or carpets with pile hooked or knotted by hand and, per square foot	15 p.c.	15 p.c. 5 cts.	40 p.c. 20 cts.	25 p.c.	25 p.c. 5 cts.	40 p.c. 20 cts.

Tariff Item		Rates in Effect Prior to Rates Proposed in this Budget				
		British Preferential Tariff	Most- Favoured-Nation Tariff	British Preferential Tariff	Most- Favoured-Nation Tariff	General Tariff
70505-1	Goods, as defined by regulations made by the Minister, imported by a settler for his household or personal use, if actually owned by the settler and in his possession and use before his removal to Canada, under such regulations as the Minister may prescribe.....	Free	Free	Free	Free	Free
	Any goods imported under this tariff item which are sold or otherwise disposed of within twelve months after importation are subject to the duties and taxes otherwise prescribed.			Free Various	Free Various	Free Various
84805-1	Machines and apparatus and parts thereof (including motive power) of a class or kind not made in Canada and drilling mud, for use in the exploration, discovery, development and operation of potash and rock salt mines or for use in the production of crushed and screened rock salt.....	Free	Free	Free	Free	Free

2. Resolved, that Schedule B to the *Customs Tariff* be amended by striking out item 97052-1 and the enumeration of goods and the rate of drawback of duty set opposite that item, and by inserting therein the following item, enumeration of goods and rate of drawback of duty:

Item No.	Goods	When Subject to Drawback	Portion of Duty (not including Special Duty or Dumping Duty) Payable as Drawback
97052-1	Machines; precision instruments and apparatus for heat treating, welding, sorting, testing, inspecting or correcting; control panels for use with the aforementioned machines and precision instruments and apparatus; all of the foregoing of a class or kind not made in Canada; accessories and attachments for use with the aforementioned machines and precision instruments and apparatus; parts of all the foregoing, not including consumable tools.	When used in the plants of manufacturers of automobiles and motor vehicles or of automobile or motor vehicle parts for the manufacture of automobiles and motor vehicles or of automobile or motor vehicle parts; or when used for the manufacture of dies, jigs, fixtures or moulds which are used in the production of automobile or motor vehicle parts.	99 p.c.

3. Resolved, that Schedule C to the *Customs Tariff* be amended by striking out item 99219-1 and the enumeration of goods set opposite that item, and by inserting therein the following item and enumeration of goods:

99219-1	Used or second-hand mattresses or materials therefrom: This item does not affect in any manner: (a) mattresses imported under tariff items 70405-1, 70410-1, 70505-1, 70600-1, 70700-1, 70800-1, or under tourists' or travellers' vehicle permits; (b) materials from used or second-hand mattresses, when imported after having been cleaned and fumigated, under such regulations as the Minister may prescribe, accompanied by such certificates as he may designate.
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4. Resolved, that any enactment founded upon the foregoing resolutions shall be deemed to have come into force on the 30th day of March, 1966, and to have applied to all goods mentioned in the said resolutions imported or taken out of warehouse for consumption on or after that day, and to have applied to goods previously imported for which no entry for consumption was made before that day.

INCOME TAX ACT RESOLUTION

Resolved that it is expedient to introduce a measure to amend the Income Tax Act and to provide among other things:

1. That for the 1967 and subsequent taxation years the deduction from individual income tax equal to the lesser of 10 per cent of basic tax or \$600, described in subsection (4) of section 33 of the said Act, be replaced by a deduction equal to the lesser of 20 per cent of basic tax or \$20, and that for the 1966 taxation year the deduction be equal to the aggregate of

(a) 4 per cent of basic tax or \$240, whichever is the lesser, and

(b) 12 per cent of basic tax or \$12, whichever is the lesser.

2. That for the 1967 and subsequent taxation years,

(a) a gift made to a charitable organization in Canada exempt from tax by paragraph (e) of subsection (1) of section 62 or to a corporation or trust resident in Canada exempt from tax by paragraph (f) or (g) of that subsection may be deducted in computing taxable income for the year only if the donee is a registered Canadian charitable organization, and for this purpose a registered Canadian charitable organization shall mean

(i) a charitable organization in Canada exempt from tax by paragraph (e) of subsection (1) of section 62 or a corporation or trust resident in Canada exempt from tax by paragraph (f) or (g) of that subsection, or

(ii) a branch, section, parish, congregation or other division of an organization described in (i) that receives donations on its own behalf,

that has been registered in a prescribed manner with the Minister of National Revenue and has filed a return in prescribed form; and

(b) the aggregate of gifts that a taxpayer may deduct in computing his taxable income for a taxation year by virtue of paragraph (a) of subsection (1) of section 27 of the Act may include a gift made

(i) to the United Nations or any agency thereof,

(ii) to a university outside Canada prescribed to be a university the student body of which ordinarily includes students from Canada, or

(iii) to a charitable organization outside Canada to which Her Majesty in right of Canada has made a gift during the calendar

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year coinciding with or ending in the taxation year.

3. That with respect to bonds or other obligations issued after April 15, 1966, interest on such bonds or other obligations

(a) of or guaranteed by the Government of Canada,

(b) of the government of a province,

(c) of an agent of a province, an educational institution or a hospital, where repayment of the principal amount thereof and payment of the interest thereon is guaranteed by the government of the province, or

(d) of a municipal or local government established under provincial law, be exempt from the 15% non-resident withholding tax.

4. That with respect to taxation years ending after March 29, 1966, a corporation whose principal business during the year after that date was trading or dealing in bonds, shares or debentures will not be eligible to pay tax at the special 15 per cent rate of tax provided by section 70 of the said Act.

5. That with respect to dividends received after March 29, 1966, a non-resident-owned investment corporation may not deduct from its income in computing its taxable income a dividend received by it from another non-resident-owned investment corporation other than a dividend paid by a non-resident-owned investment corporation that had previous to the payment of the dividend, and at a time when it was taxable as a non-resident-owned investment corporation, paid dividends (other than dividends on which no tax was payable under the said Act) the aggregate amount of which is not less than the corporation's surplus determined in the manner prescribed for purposes of subsection (1a) of section 106 of the said Act for taxation years for which it was not taxable as a non-resident-owned investment corporation.

6. That for the 1966 and subsequent taxation years an employee may not deduct in computing his income an amount in respect of tuition fees paid on his behalf by his employer in excess of the amount included in his income in respect of the said fees.

7. That with respect to a benefit received after March 29, 1966 by virtue of a plan under which a corporation agrees to sell or issue shares to its employees, the rules described in subsection (2) of section 85A of the said Act that an employee may elect to use to calculate the amount of tax on the said

benefit be amended so that the 20 per cent of the amount of the benefit referred to in subparagraph (ii) of paragraph (b) of the said subsection will not exceed \$200, but that this amendment shall not apply if the right to acquire shares was given to the employee before 1965 and the benefit is received before January 1, 1967.

8. That it be declared for greater certainty that the expression "in Canada" in the said Act includes and has always included the sea bed and sub-soil of the submarine areas adjacent to the coasts of Canada in respect of which grants are issued, by the Government of Canada or of a province, of a right, license or privilege to explore for, drill for or take any materials or substances.

9. That with respect to operations that come into commercial production after March 29, 1966, the definition of a mine be amended so that all wells, the material that is extracted from sylvite deposits by means of which is sent to a single plant for processing, be deemed to be one mine, and that where an operation that would qualify as a mine by reason of an enactment based on this resolution came into commercial production within the 3 years preceding March 29, 1966, that part of the income of the operator thereof that is attributable to commercial production therefrom in the part of the first 36 months of such operation that falls after March 29, 1966, shall be deemed to be income from the operation of a mine.

10. That the date before which a new manufacturing or processing business must have commenced manufacturing or processing in reasonable commercial quantities in a designated area in order to qualify for an exemption from tax on its income from such operations for 36 months after the commencement of operations be changed from April 1, 1967 to April 1, 1968 in the case of a manufacturing or processing business where evidence satisfactory to the Minister of Industry is furnished to establish that:

(a) the facilities to be used in the said business were in the process of being constructed, installed or assembled on the site of the proposed business premises on March 29, 1966, and

(b) the said business is unable to commence manufacturing or processing in reasonable commercial quantities before April 1, 1967, by reason of an event beyond the control of the said business.

11. That the provisions of section 79C of the said Act dealing with deferred profit sharing plans be revised and in particular that the said provisions:

(a) authorize the Governor in Council to make regulations to define the property in which funds of a trust governed by a plan may be invested,

(b) require that property of a trust governed by a plan be vested in the employees who are beneficiaries under the plan, and

(c) provide rules for taxing amounts re-allocated when employees who are beneficiaries under a plan cease to be beneficiaries under the plan.

12. That paragraph (u) of subsection (1) of section 11 be amended to provide that the deduction from income provided thereunder shall not apply with respect to amounts paid after March 29, 1966, to a trustee under a deferred profit sharing plan.

13. That section 79A of the Act, dealing with supplementary unemployment benefit plans, be amended to provide for the registration of such plans for the purposes of the said Act and to authorize the making of regulations governing the qualifications required of such plans for registration.

14. That with respect to each taxation year included in whole or in part in the period commencing May 1, 1966, and ending October 31, 1967, a special refundable tax at the rate of 5 per cent shall be payable by all corporations that are not exempt from tax under the said Act by virtue of section 62 thereof and by all trusts (other than trusts arising on death) calculated, in the case of a corporation, on a tax base (hereinafter called the corporate tax base) comprising the aggregate of

(a) its taxable income or loss,

(b) amounts deducted under paragraph (a) of subsection (1) of section 11 in computing its income,

(c) amounts deducted under paragraph (b) of subsection (1) of section 11 in computing its income,

(d) business losses sustained in other years that are deducted in computing its taxable income,

(e) the amount by which any amounts deducted under section 83A of the said Act in computing its income exceed any expenses described in that section actually incurred by it in the year,

(f) dividends received from corporations described in paragraphs (d) and (e) of subsection (1) of section 28 of the said Act that are deducted in computing its taxable income, and

(g) income from the operation of a mine not included in computing its income by virtue of subsection (5) of section 83 of the said Act, minus the aggregate of

(h) \$30,000, but where the corporation is associated with one or more other corporations in the year, than 30-35ths of the amount allocated to it for the year under subsection (3) or (3a) of section 39 of the said Act,

(i) the aggregate of the payments made in the year by the corporation (not exceeding the aggregate of the amounts specified in sub-paragraphs (b) and (e)) each of which was a payment as or on account of principal made in retirement of a debt owed by the corporation or made into a sinking fund that under an agreement in writing entered into before March 30, 1966 was required to be established for the purpose of the retirement of a debt owed by the corporation, if

(i) the original term for full repayment of the debt was three years or longer,

(ii) the payment was required to be made in the year under an agreement in writing entered into before March 30, 1966, and

(iii) the payment was made to a person with whom the corporation was dealing at arm's length,

(j) payments made in the year by the corporation to redeem shares of its capital stock where such redemption was authorized by or on behalf of the corporation before March 30, 1966, or required by an agreement in writing entered into before that day, and

(k) the following taxes payable by the corporation in respect of the year, namely

(i) income tax payable to Her Majesty in right of Canada,

(ii) income tax and logging tax payable to Her Majesty in right of a province, and

(iii) income and profits taxes payable to the government of a country other than Canada, and in the case of a trust, on a tax base (hereinafter called the trust tax base) comprising the aggregate of

(l) its income or loss from all businesses carried on by it,

(m) its rental income not included in computing the amount determined under sub-paragraph (l),

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(n) amounts deducted under paragraph (a) of subsection (1) of section 11 in computing the amounts specified in subparagraphs (l) and (m), and

(o) amounts deducted under paragraph (b) of subsection (1) of section 11 in computing the amounts specified in subparagraphs (l) and (m), minus the aggregate of

(p) \$30,000,

(q) the aggregate of the payments made in the year by the trust (not exceeding the amount specified in subparagraph (n) each of which was a payment as or on account of principal made in retirement of a debt owed by the trust, if

(i) the original term for full repayment of the debt was three years or longer,

(ii) the payment was required to be made in the year under an agreement in writing entered into before March 30, 1966, and

(iii) the payment was made to a person with whom the trust was dealing at arm's length, and

(r) income and profits taxes payable in respect of the year to the government of a country other than Canada.

15. That for the purposes of the special refundable tax, the corporate tax base and trust tax base for any taxation year part of which is before May 1, 1966 or after October 31, 1967, shall be that proportion of the said tax base that the number of days in the taxation year that are after April 30, 1966 or before November 1, 1967, as the case may be, is of the total number of days in the taxation year.

16. That payment of the special refundable tax shall be made,

(A) in the case of a corporation, in monthly installments on the last day of each month commencing with May 31, 1966, and ending with October 31, 1967, with each installment calculated by reference to the corporate tax base for the same taxation year of the corporation as is used in computing or estimating the corporation tax payment that is due on the same day, and

(B) in the case of a trust, in equal installments on June 30, September 30 and December 31, 1966, and in equal installments on March 31, June 30 and September 30, 1967, calculated by reference to the trust tax base for the preceding taxation year or the estimated trust tax base for the taxation year in which the installments are paid.

17. That each installment of special refundable tax shall be,

(a) in the case of a corporation, that proportion of the tax calculated or estimated to be payable for the taxation year, that one is of the number of installment payment dates in the taxation year that are after April 30, 1966, and before November 1, 1967, and

(b) in the case of a trust, one third of the tax calculated or estimated to be payable for the taxation year, and that

(c) the final adjusting payment, if any, shall be due, in respect of each taxation year, three months after the end of the taxation year, and

(d) a return in prescribed form shall be filed by a corporation within six months from the end of each taxation year, and by a trust within ninety days from the end of each taxation year.

18. That the special refundable tax shall be refunded together with interest at 5% per annum to taxpayers at such time or times as may be prescribed but not less than 18 months nor more than 36 months after the later of

(a) the day on which the payment of tax to be refunded was due; or

(b) the day on which the payment of tax to be refunded was paid.

EXCISE TAX ACT RESOLUTION

Resolved that it is expedient to introduce a measure to amend the Excise Tax Act and to provide among other things:

1. That effective March 30, 1966,

(a) dies, jigs, fixtures and moulds,

(b) patterns for dies, jigs, fixtures and moulds, and

(c) tools for use in or attachment to production machinery that are for working materials by turning, milling, grinding, polishing, drilling, punching, boring, shaping, shearing, pressing or planing, when for use by manufacturers or producers directly in the manufacture or production of goods, be exempt from sales tax.

2. That the combined rate of tax under the said Act and the Old Age Security Act on the following goods (other than goods described in paragraph 1) shall, effective April 1, 1967, be reduced to 6% and effective April 1, 1968, be reduced to zero, namely:

(a) machinery and apparatus sold to or imported by manufacturers or producers for use by them directly in the manufacture or production of goods,

(b) equipment sold to or imported by manufacturers or producers for use by them for exhausting dust and noxious fumes produced by their manufacturing or producing operations,

(c) safety devices and equipment sold to or imported by manufacturers or producers for use by them in the prevention of accidents in the manufacture or production of goods,

(d) equipment sold to or imported by manufacturers or producers for use by them in carrying refuse or waste from machinery and apparatus used by them directly in the manufacture or production of goods,

(e) gasoline-powered and diesel powered self-propelled trucks mounted on rubber-tired wheels for off-highway use exclusively at mines and quarries,

(f) internal combustion tractors, other than highway truck tractors, for use exclusively in the operation of logging, such operation to include the removal of the log from stump to skidway, log dump, or common or other carrier,

(g) logging wagons and logging sleds,

(h) machinery, logging cars, cranes, captive balloons having a volume of 150,000 cubic feet or more, blocks and tackle and wire rope; all the foregoing for use exclusively in the operation of logging, such operation to include the removal of the log from stump to skidway, log dump, or common or other carrier,

(i) pipes or tubes commonly known as "oil-country goods", being casing or tubing and fittings, couplings, thread protectors and nipples therefor; drill pipe; all of the foregoing for use in connection with natural gas or oil wells,

(j) machinery and apparatus, including drillings bits and seismic shot-hole casing, for use in exploration for or discovery or development of petroleum, natural gas or minerals,

(k) repair and maintenance equipment sold to or imported by manufacturers or producers for use by them in servicing goods described in subparagraphs (a) to (j) that are used by them,

(l) parts for goods described in subparagraphs (a) to (k),

(m) drilling mud and additives therefor,

(n) geophysical surveying precision instruments and equipment for use exclusively in prospecting for, or in the exploration and development of, petroleum, natural gas, water wells and minerals, or for geophysical studies

for engineering projects, including the following: magnetometers; gravity meters and other instruments designed to measure the elements, variations and distortions of the natural gravitational force; field potentiometers, meggers, non-polarizing electrodes, and electrical equipment for making measurements in drill holes; instruments and equipment for seismic prospecting; geiger muller counters and other instruments for radioactive methods of geophysical prospecting; electrical and electronic amplifying devices and electrical thermostats designed to be used with any of the foregoing; repair parts, tripods and fitted carrying cases for any of the foregoing, and

(o) articles and materials for use in the manufacture of goods described in sub-paragraphs (a) to (n) but not including:

(p) goods for use by persons exempt from payment of consumption or sales tax under subsection (2) of section 34 of the said Act,

(q) office equipment or

(r) motor vehicles except those described in sub-paragraphs (e) and (h).

3. That effective March 30, 1966, the consumption or sales tax on goods described in paragraph 2 that are produced or manufactured in Canada shall be imposed, levied and collected at the rate of tax in effect at the time when the goods are delivered to the purchaser and shall be payable at the time or times provided in paragraph (a) of subsection (1) of section 30 of the said Act.

4. That effective March 30, 1966, stained glass windows of handmade or hand rolled glass technically called antique glass and materials for use exclusively in the manufacture thereof be exempt from sales tax.

5. That effective March 30, 1966, natural gas be exempt from sales tax.

6. That effective March 30, 1966, fuel oil for use in the generation of electricity be exempt from sales tax.

7. That effective March 30, 1966, a person engaged in the business of retreading tires be deemed to be a producer or manufacturer.

8. That effective March 30, 1966, prepared surgical skin closure devices, plastic surgical drapes for use during surgical operations, artificial teeth and articles and materials for use in the manufacture of the foregoing be exempt from sales tax.

9. That effective March 30, 1966, the present exemption from sales tax for lobster pots, lobster traps, and materials to be used

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in the manufacture thereof be extended to include crab or shrimp pots, crab or shrimp traps, and materials to be used in the manufacture thereof.

10. That effective March 30, 1966, the present exemption from sales tax for steel pens and complete parts thereof for farm animals be extended to include steel stalls and complete parts thereof for farm animals.

11. That effective March 30, 1966, tobacco dryers, not including buildings, for use on the farm for farm purposes only, parts therefor and articles and materials for use in the manufacture thereof be exempt from sales tax.

12. That effective March 30, 1966, vegetable and mineral ingredients to simulate meat products and materials for use in their manufacture be exempt from sales tax.

13. That effective July 1, 1966,

(a) dressers and dyers of furs shall be subject to sales tax on the aggregate of the current market value of raw furs dressed or dressed and dyed by them and the dressing or the dressing and dyeing charge, and

(b) dyers of furs who dye tax-paid dressed furs shall be subject to sales tax on the dyeing charge only, and that for the purpose of the said Act, dressed or dressed and dyed furs shall be deemed not to be partly manufactured goods and shall be deemed to be sold at the time they are delivered out of the possession of the dresser or dyer.

14. That effective July 1, 1966, where tax-paid dressed or dressed and dyed furs are delivered to a producer or manufacturer to be incorporated by him into articles on which sales tax is payable, a deduction from tax payable shall be allowed to such producer or manufacturer equal to the tax paid on the dressed or dressed and dyed furs less the amount of any deduction previously allowed in respect of such tax.

15. That effective March 30, 1966, where by the said Act or An Act to amend the Excise Tax Act, Chapter 12 of the Statutes of Canada 1963, a deduction from or refund of tax is provided for or a payment by the Minister in an amount equal to tax paid is provided for, and circumstances exist which render it difficult to determine the exact amount of such deduction, refund or payment by the Minister, the Minister may, with the consent of the person entitled to such deduction, refund or payment, grant a deduction or refund or pay an amount determined, in such

manner as the Governor in Council may by regulation prescribe, to be the correct deduction, refund or amount.

16. That effective March 30, 1966, the tax imposed under section 5 of Schedule I of the said Act on electron tubes, not including cathode ray tubes, the duty-paid value or the sale price of which, as the case may be, does not exceed five dollars per tube, be changed from "fifteen per cent, but not less than ten cents per tube", to "ten cents per tube".

17. That effective March 30, 1966, the tax imposed under section 3 of Schedule I of the

said Act on devices commonly known as lighters be changed from "ten per cent but not less than ten cents per device" to "ten cents per device".

18. That effective March 30, 1966, in calculating the sale price of goods manufactured in Canada for the purpose of determining the excise tax payable under Part IV of the said Act, there shall not be included the amount charged as price for or in respect of any other goods contained in or attached to the wrapper, package, box, bottle or other container in which the goods are contained.

FEDERAL GOVERNMENT REVENUE AND EXPENDITURE ON NATIONAL ACCOUNTS BASIS

	1964-65	1965-66 estimate	1966-67 forecast after tax changes
	(millions of dollars)		
A. Revenue			
1. Direct taxes, persons.....	2,630	2,758	3,045
2. Direct taxes, corporations ⁽¹⁾	1,477	1,624	1,770
3. Refundable tax.....	—	—	160
4. Withholding taxes.....	147	170	178
5. Indirect taxes.....	2,920	3,341	3,564
6. Investment income.....	571	630	758
7. Insurance and pension funds.....	580	607	662
8. Total revenue.....	8,325	9,130	10,137
B. Expenditure			
1. Goods and services: defence.....	1,589	1,565	1,634
2. Goods and services: other.....	1,500	1,794	1,944
3. Transfers to persons.....	2,263	2,345	2,553
4. Interest on public debt.....	1,012	1,057	1,174
5. Subsidies.....	260	325	347
6. Capital Assistance.....	82	84	69
7. Transfers to other levels of government.....	1,340	1,466	1,801
8. Total expenditure.....	8,046	8,636	9,522
C. Surplus (+) or deficit (-).....	+279	+494	+615

⁽¹⁾ Excludes taxes on government business enterprises. These taxes are included with government investment income.

FEDERAL GOVERNMENT REVENUE RECONCILIATION OF PUBLIC ACCOUNTS
AND NATIONAL ACCOUNTS PRESENTATIONS

	1964-65	1965-66 estimate	1966-67 forecast after tax changes
	(millions of dollars)		
1. Budgetary revenue.....	7,180	7,673	8,300
2. Supplementary period adjustment ⁽¹⁾	-42	+44	+8
3. Extra-budgetary revenues			
Old age security tax collections.....	959	1,170	1,276
Unemployment insurance employer-employee contributions....	310	328	343
Government pension funds, employer-employee contributions...	270	279	319
Prairie Farm Assistance Act levy.....	10	10	10
Interest receipts of social insurance and pension accounts.....	158	180	205
4. Corporate income tax ⁽²⁾ : excess (+) of accruals over collections....	-162	-114	-109
5. Refundable tax.....	—	—	160
6. Profits before taxes (net of losses) of government business enterprises.....	226	247	299
7. Interest on loans, advances and investments.....	187	203	254
8. Less: Budgetary return on investments.....	-382	-477	-498
9. Less: Postal revenue.....	-231	-236	-245
10. Budgetary revenue items offset against budgetary expenditures ⁽³⁾ ..	-125	-132	-147
11. All other adjustments to budgetary revenue ⁽⁴⁾	- 33	- 45	- 38
12. Total revenue, National Accounts basis.....	8,325	9,130	10,137

⁽¹⁾ In the national accounts, revenues in the supplementary period are shifted to the following fiscal year.

⁽²⁾ Taxes on government business enterprises are excluded from this item and included in item 6.

⁽³⁾ See also line 8, expenditure reconciliation.

⁽⁴⁾ These adjustments are largely revenue items not relevant for the national accounts such as proceeds from sales of existing assets.

FEDERAL GOVERNMENT EXPENDITURE: RECONCILIATION OF PUBLIC ACCOUNTS
AND NATIONAL ACCOUNTS PRESENTATIONS

	1964-65	1965-66 estimate	1966-67 forecast after tax changes
	(millions of dollars)		
1. Budgetary expenditure.....	7,218	7,707	8,450
2. Supplementary period adjustment ⁽¹⁾	- 53	+ 58	- 7
3. Expenditures of extra-budgetary funds			
Old age security fund payments.....	885	929	1,035
Unemployment insurance benefits.....	335	306	310
Government pension fund payments.....	101	115	132
Prairie farm assistance payments.....	11	10	10
4. Transfers to extra-budgetary funds.....	- 63	- 65	- 67
5. Adjustment to place other government funds and Crown agencies on a disbursement basis ⁽²⁾	33	11	57
6. Budgetary expenditures offset against income of government business enterprises—			
Post Office expenditures.....	-211	-235	-253
Deficits of government business enterprises.....	- 92	-126	- 88
7. Reserves and write-offs.....	-43	- 35	- 26
8. Budgetary revenue items offset against budgetary expenditure ⁽³⁾ ...	-125	-132	-147
9. Other adjustments to budgetary expenditure.....	50	93	116
10. Total expenditure, National Accounts basis.....	8,046	8,636	9,522
11. Surplus or deficit, National Accounts basis.....	+279	+494	+615
12. Surplus or deficit, budgetary basis.....	(- 38)	(- 34)	(-150)
13. Total, national accounts basis.....	8,325	9,130	10,137

⁽¹⁾ In the national accounts, expenditures on goods and services in the supplementary period are split evenly between adjacent fiscal years. Other expenditure items are shifted entirely to the next fiscal year.

⁽²⁾ This adjustment replaces budgetary appropriations to various funds and agencies by the outlays actually made by these funds and agencies.

⁽³⁾ The largest component of this item consists of revenue from sales of goods and services by the government sector. These sales appear as final expenditure of the private sector and are deducted to avoid double counting.

BUDGET PAPERS

presented by

the Honourable Mitchell Sharp, M.P.,

Minister of Finance

for the information of Parliament

in connection with the Budget of 1966-1967

FOREWORD

The purpose of these Papers is twofold:

1. to present a general economic review of 1965, bringing together in one place and in convenient form some of the more comprehensive indicators of economic conditions prepared by the Dominion Bureau of Statistics, the Bank of Canada and other Government Agencies, together with brief comments;
2. to present a preliminary review of the Government Accounts for the fiscal year ending March 31, 1966.

PART I

ECONOMIC WHITE PAPER FOR 1966

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The tables and charts in this Budget Paper are based upon estimates provided by the Dominion Bureau of Statistics, the Bank of Canada and other Government Agencies. Some of the figures appear for the first time; others have been published elsewhere. All 1965 estimates are preliminary and subject to revision.

ECONOMIC REVIEW FOR 1965

THE CANADIAN ECONOMY—RETROSPECT AND PROSPECT

The Canadian Gross National Product in 1965 rose by rather more than nine per cent. The volume of output of goods and services was about six and a half per cent higher than in 1964, while prices rose by about three per cent. The 1965 advance in output was a continuation of the expansion which began in early 1961 and which has become the longest in Canadian history.

There have been three chief dynamic elements contributing to this strong and sustained expansion. Private investment, following a serious decline after 1957, began to recover strongly by 1964 and has now reached boom proportions. Exports have risen considerably since 1961. Government spending on both current and capital account has also increased substantially. Incomes and employment have risen accordingly and the number of unemployed has fallen; unemployment in the closing months of the year averaged well below four per cent of the labour force. Shortages of skilled labour developed during the period of peak activity in many areas of the country.

The increase in incomes was accompanied by further large gains in consumer expenditures on goods and services of all kinds. In conjunction with the investment programme and the high level of demand there was a sharp rise in imports in 1965. Despite the higher level of exports, there was a rise in the balance of payments deficit on current account.

Incomes

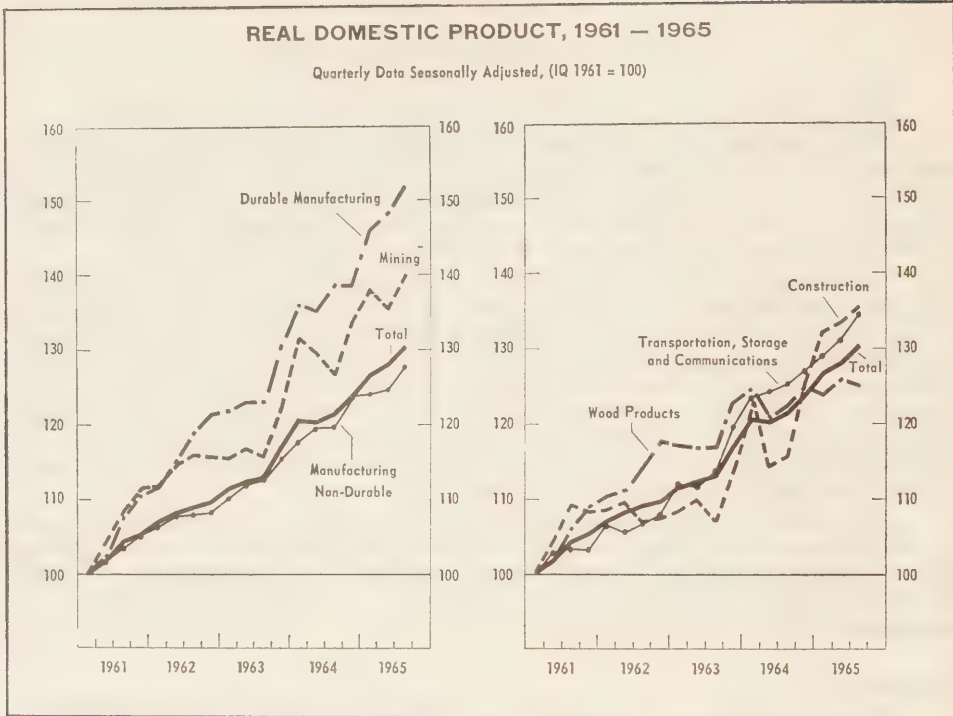
Wages, salaries and supplementary labour income rose more rapidly in 1965 than in any previous year of the current expansion. This was due to the sharp gains in employment achieved during the year, as well as the more rapid rise in average earnings, as hourly wage rates rose in many sectors. Among the different industries, labour income rose most rapidly in construction, where both employment and wage rates rose very rapidly. Sharp increases were also recorded in the service and trade sectors, and in manufacturing.

Profits continued to rise in 1965. The rate of advance appeared about the same as that of labour income, but was somewhat below that achieved in 1964. This rather slower rate of gain in 1965 was associated with higher costs, including wage costs, in many sectors. This development is typical of the more mature stages of the normal business cycle, and was observed in many manufacturing industries and some of the service industries. Other industries in the service group, however, recorded higher profits in 1965.

Net farm income as estimated in Gross National Product for the first three quarters showed a gain of about eight per cent over the same period in 1964. Farm cash receipts in the first three quarters of 1965, at \$2,659 million, were up by over five per cent from the 1964 nine-month total. Receipts from sale of wheat, including participation payments, were down slightly, but receipts from sale of livestock were up very substantially.

Net income of non-farm unincorporated business, which rose by nearly six per cent in the nine months, was affected largely by improved net income in retail trade. Other changes were small and to some extent offsetting. Investment income also rose moderately during the nine months.

CHART 1



Expenditures

The major contributions to the increase in expenditures in 1965 came from the rise in consumer expenditures, investment outlays and government spending. Exports, after the sharp gains of 1964, expanded more slowly in 1965.

Purchases of goods and services for private consumption rose by around seven and a half per cent in 1965. Expenditures on durable goods rose less rapidly than they had done in 1964, while the rise in expenditures on services was well maintained and purchases of non-durables accelerated. Price increases account for some part in these changes, especially in the area of services and non-durable goods.

Public and private investment expenditures rose very rapidly in 1965, for the second year in succession. In particular, new investment in manufacturing plant and equipment increased by over 30 per cent in 1964 and 20 per cent in 1965, with some of the commercial services recording gains of almost equal magnitude. Housing and social capital expenditures were also a major feature in the 1965 capital programme, with both the needs of industrial expansion and the needs of continued population growth pressing upon available resources in many areas. As the year wore on, the ability of the construction industry to meet the demands placed upon it became strained in many areas, and the later months of the year saw a decline in new apartment starts as the competition for mortgage funds intensified.

TABLE 1
NATIONAL INCOME AND GROSS NATIONAL PRODUCT
(Seasonally adjusted at annual rates)

	1964				1965			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
	(Millions of dollars)							
1. Wages, salaries, and supplementary labour income.....	22,732	23,100	23,704	24,128	25,000	25,592	26,292	26,292
2. Military pay and allowances.....	572	576	584	600	604	592	600	600
3. Corporation profits before taxes.....	4,596	4,488	4,376	4,880	4,940	4,908	5,052	5,052
4. Deduct: Dividends paid to non-residents ⁽¹⁾	684	588	680	788	708	756	796	796
5. Rent, interest, and miscellaneous investment income.....	3,220	3,252	3,248	3,388	3,416	3,508	3,504	3,504
6. Accrued net income of farm operators from farm production ⁽²⁾	1,372	1,680	1,432	1,404	1,532	1,564	1,712	1,712
7. Net income of non-farm unincorporated business ⁽³⁾	2,548	2,584	2,624	2,592	2,632	2,764	2,812	2,812
8. Inventory valuation adjustment.....	-140	-292	88	-140	-184	-448	-236	-236
9. National Income	34,216	34,780	35,376	36,064	37,232	37,724	38,940	38,940
10. Indirect taxes less subsidies.....	6,140	6,340	6,500	6,344	6,892	7,060	7,284	7,284
11. Capital consumption allowances and miscellaneous valuation adjustments.....	5,512	5,580	5,596	5,740	5,900	6,088	6,052	6,052
12. Residual error of estimate.....	52	-16	-80	-132	-116	8	-220	-220
13. Gross National Product at Market Prices	45,920	46,684	47,392	48,016	49,908	50,880	52,056	52,056
14. (Gross national product at market prices excluding accrued net income of farm operators).....	(44,548)	(45,004)	(45,960)	(46,612)	(48,376)	(49,316)	(50,344)	(50,344)

⁽¹⁾ Includes the withholding taxes applicable to this item.

⁽²⁾ Includes an arbitrary smoothing of crop production and standard seasonal adjustments for withdrawals of grain from farm stocks and the change in livestock items. Because of the arbitrary elements, too precise an interpretation should not be given the seasonally adjusted figures of accrued net income of farm operators.

⁽³⁾ Includes net income of independent professional practitioners.

SOURCE: DBS *The National Accounts*.

TABLE 2
GROSS NATIONAL EXPENDITURE
(Seasonally adjusted at annual rates)

	1964				1965			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
	(Millions of dollars)							
1. Personal expenditure on consumer goods and services	28,852	29,040	29,684	30,148	30,512	31,344	32,120	.....
2. Government expenditure on goods and services	8,564	8,524	8,544	8,796	9,120	9,412	9,596	.....
3. Business gross fixed capital formation ⁽¹⁾	8,944	8,828	8,790	9,380	10,052	10,236	10,776	.....
New residential construction	2,176	1,908	1,872	2,128	2,156	2,144	2,160	.....
New non-residential construction	3,164	3,244	3,376	3,588	3,948	4,040	4,348	.....
New machinery and equipment	3,604	3,676	3,472	3,664	3,948	4,052	4,268	.....
4. Value of physical change in inventories—total ⁽²⁾	452	448	388	232	1,076	936	436	.....
Non-farm business inventories	572	616	804	48	944	768	700	.....
Farm inventories and grain in commercial channels	-120	-168	-416	184	132	168	-264	.....
5. Exports of goods and services ⁽³⁾	9,996	10,604	10,756	10,404	10,552	10,892	11,244	.....
6. Imports of goods and services ⁽³⁾	-10,840	-10,772	-10,784	-11,076	-11,520	-11,932	-12,336	.....
7. Residual error of estimate	-48	12	84	132	116	-8	220	.....
8. Gross National Expenditure at Market Prices	45,920	46,684	47,392	48,016	49,908	50,880	52,056	.....

⁽¹⁾Includes private businesses and institutions, and publicly owned business enterprises.

⁽²⁾The book value of inventories is deflated to remove the effect of price changes and the derived "physical" change is then valued at average prices of the current period to obtain the value of physical change. The difference between this value of physical change and the change in book value is called the inventory valuation adjustment.

⁽³⁾Minor adjustments have been made to the figures of current receipts and payments shown in Table 37 to achieve consistency with the other component series.

SOURCE: DBS *The National Accounts*.

TABLE 3
GROSS NATIONAL EXPENDITURE IN CONSTANT (1957) DOLLARS
(Seasonally adjusted at annual rates)

	1964				1965			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
	(Millions of dollars)							
1. Personal expenditure on consumer goods and services.....	26,252	26,316	26,812	27,156	27,384	27,904	28,496	.....
2. Government expenditure on goods and services.....	7,140	7,076	6,996	7,184	7,372	7,516	7,608	.....
3. Business gross fixed capital formation.....	7,684	7,476	7,360	7,848	8,248	8,288	8,696	.....
New residential construction.....	1,796	1,552	1,504	1,692	1,692	1,656	1,664	.....
New non-residential construction.....	2,764	2,808	2,904	3,048	3,288	3,292	3,516	.....
New machinery and equipment.....	3,124	3,116	2,952	3,108	3,268	3,340	3,516	.....
4. Value of physical change in inventories—total.....	444	424	336	208	1,012	896	396	.....
Non-farm business inventories.....	568	596	744	32	896	728	660	.....
Farm inventories and grain in commercial channels.....	-124	-172	-408	176	116	168	-264	.....
5. Exports of goods and services.....	9,128	9,648	9,672	9,404	9,584	9,832	10,020	.....
6. Imports of goods and services.....	-9,472	-9,364	-9,436	-9,740	-10,068	-10,452	-10,776	.....
7. Residual error of estimate.....	-44	12	76	116	100	-8	188	.....
8. Gross National Expenditure at Market Prices.....	41,132	41,588	41,816	42,176	43,632	43,976	44,628	.....

SOURCE: DBS *The National Accounts*.

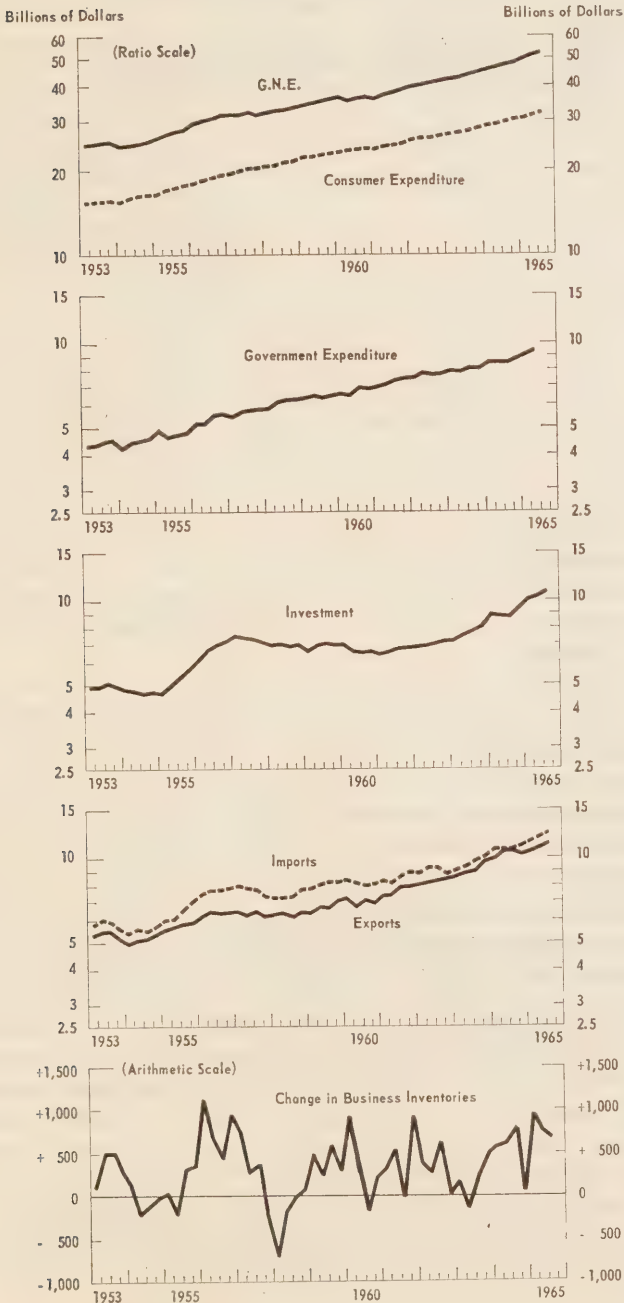
TABLE 4
PER CENT CHANGES IN MAJOR EXPENDITURE COMPONENTS⁽¹⁾

	3Q 1964 to 4Q 1964	4Q 1964 to 1Q 1965	1Q 1965 to 2Q 1965	2Q 1965 to 3Q 1965	9 months 1964 9 months 1963	9 months 1964 9 months 1963
Personal expenditure.....						
<i>Non-Durables</i>	1.6	1.2	2.7	2.5	7.4	7.3
<i>Durables</i>	2.5	-0.6	3.6	1.7	5.7	6.8
<i>Services</i>	-6.6	7.0	2.7	8.0	13.9	8.1
	2.9	1.8	1.6	1.7	7.8	7.7
Government expenditure.....						
<i>Federal</i>	2.9	3.7	3.2	2.0	6.9	9.7
<i>Provincial-Municipal</i>	-0.7	7.3	-1.0	5.4	3.8	6.4
	4.9	1.8	5.5	0.2	8.7	11.6
Investment expenditure.....						
<i>Residential</i>	7.6	7.2	1.8	5.3	18.6	17.3
<i>Non-residential</i>	13.7	1.3	-0.6	0.7	19.2	8.5
<i>Machinery and equipment</i>	6.3	10.0	2.3	7.6	16.7	26.1
	5.5	7.8	2.6	5.3	20.1	14.1
Exports.....	-3.3	1.4	3.2	3.2	18.0	4.2
Inventories: total \$m.....	-156	+844	-140	-500	-35	+387
farm \$m.....	+600	-52	+36	-432	-599	+247
non-farm \$m.....	-756	+896	-176	-68	+564	+140
Total final demand.....	1.5	4.0	2.5	2.2	10.6	9.3
Total final demand ex. inventories.....	1.8	2.6	2.7	3.0	10.8	8.7
Total domestic demand.....	2.6	4.5	2.3	1.9	9.1	10.4
Total domestic demand ex. inventories.....	2.9	2.8	2.6	2.9	9.3	9.6

⁽¹⁾Quarterly magnitudes seasonally adjusted.

CHART 2

**GROSS NATIONAL EXPENDITURE AND SELECTED
COMPONENTS IN CURRENT DOLLARS ⁽¹⁾
BY QUARTERS, 1953 — 1965**



(1) Seasonally Adjusted and at Annual Rates

Government purchases of goods and services in 1965 rose by about ten per cent from the 1964 level. Spending by provincial governments and municipalities increased more than this, while total spending on goods and services by the

TABLE 5
CHANGES IN COMPONENTS OF GROSS NATIONAL EXPENDITURE
OVER THREE POSTWAR EXPANSIONS

	1954-1956	1958-1960	1961-1965
	Annual compound growth rate over period of expansion		
	10 Quarters after 2Q 1954 trough	8 Quarters after 1Q 1958 trough	18 Quarters after 1Q 1961 trough
Personal expenditure.....	7.6	5.4	6.8
<i>Non-durables</i>	6.0	3.8	6.0
<i>Durables</i>	9.6	4.6	10.8
<i>Services</i>	8.8	8.0	6.4
Government expenditure on goods and services.....	9.6	6.1	7.2
<i>Federal</i>	5.6	-1.3	3.6
<i>Provincial-Municipal</i>	13.6	12.2	9.2
New residential construction.....	8.8	-1.0	9.6
New non-residential construction.....	22.4	-4.2	12.0
New machinery and equipment.....	15.2	5.4	12.0
Non-farm business inventories.....	(+\$454 m)	(+\$806 m)	(+\$ 87 m)
Farm and grain inventories.....	(+\$222 m)	(+\$ 86 m)	(+\$ 15 m)
Exports of goods and services.....	9.2	7.3	9.6
Imports of goods and services.....	14.0	6.9	8.8
Gross National Expenditure at Market Prices.....	10.4	6.7	8.0
Final Demand (ex inventories).....	9.6	4.9	8.0
GNE in Constant (1957) Dollars.....	8.0	4.3	6.4
Real Non-Agricultural Gross Domestic Product.....	8.0	4.6	6.0
Per Capita GNE in Constant (1957) Dollars.....	5.2	2.0	4.4

federal government rose somewhat less. Spending on non-defence items rose substantially at the federal level, while defence spending was relatively stable. Outlays on capital goods by all levels of government combined increased sharply.

Exports rose less rapidly in 1965 than they did in 1964. This was partly a reflection of the timing of wheat shipments under special contracts, which caused total 1964 exports to rise steeply from 1963 levels, and thus affected the 1965 record by reducing its rate of advance. Non-farm exports rose by some ten per cent in 1965, slightly exceeding the rate of gain in Gross National Product. Exports to the United States in 1965 rose by about thirteen per cent. In the entire current period of expansion, exports have contributed relatively heavily to the total growth. Relative rates of growth in the various demand sectors are shown in Tables 4 and 5, and are illustrated in Chart 2.

TABLE 6

PER CENT CONTRIBUTION OF GNE COMPONENTS TO TOTAL CHANGE IN GNE—
THREE POSTWAR EXPANSIONS

	2Q 1954 to 4Q 1956 (10 quarters after trough)	1Q 1958 to 1Q 1960 (8 quarters after trough)	1Q 1961 to 3Q 1965 (18 quarters after trough)
Personal expenditure on consumer goods and services.....	43.6	48.9	53.2
<i>Non-durable goods</i>	18.8	17.6	23.4
<i>Durable goods</i>	7.0	4.8	10.0
<i>Services</i>	17.8	26.5	19.8
Government expenditure on goods and services.....	15.6	15.5	16.7
<i>Federal</i>	4.7	-1.5	3.2
<i>Provincial and Municipal</i>	10.9	17.0	13.5
Business gross fixed capital formation.....	31.6	0.1	27.7
New residential construction.....	3.7	-0.7	4.9
New non-residential construction.....	16.1	-4.9	11.6
New machinery and equipment.....	11.8	5.7	11.2
Non-farm business inventories.....	15.1	33.8	2.5
Farm inventories and grain in commercial channels.....	7.4	3.6	0.4
Exports of goods and services.....	17.6	19.9	25.2
Imports of goods and services (-).....	-31.0	-21.8	-25.8
GNE (ex error).....	100.0	100.0	100.0

Agriculture

The achievements of the agricultural sector in 1965 were significant. Last year's weather was, on the whole, favourable. In addition to this, however, it may be noted that the long-term improvement in agricultural skills has been sustained, with the improvement in livestock and plant varieties resulting from continued active research also contributing to the rise in real output from the farms. Prairie grain acreage was very slightly higher than in 1964 and the crop yield, in bushels per acre, was high. Conditions were not uniformly favourable for all crops in all areas, and production of vegetables and dairy products in the eastern part of the country in the first half of the year was reduced by severe drought. Despite this, however, and despite an accelerated flow of workers out of the farm sector into non-agricultural industries, agricultural output rose by six per cent in the year, from a 1964 level which was itself good in terms of the average of the preceding ten years.

Costs and Prices

Wage rates on the whole advanced more rapidly in 1965 than in the previous year. This trend reflected the growing maturity of the present period of expansion and accompanied the generally higher level of utilization of resources achieved during the course of the year. In manufacturing as a whole, average hourly

earnings⁽¹⁾ were 5.0 per cent higher than they were in 1964. The advance a year earlier had been 3.6 per cent. The acceleration was slightly more marked in durable than non-durable goods production. In construction, the advance in 1965 was 8.5 per cent, compared to a 5.1 per cent gain the previous year. Productivity gains in general were below these levels, so that labour costs per unit of output rose across a wide selection of goods-producing industries.

Some other producers' costs also rose in 1965. In some cases, this was directly related to increased federal sales taxes on construction materials and production equipment. In other cases, raw material and semi-manufactured component prices advanced due to other factors, as indicated in the various industry selling price indexes, which exclude taxes. Some of these changes are summarized in Table 7, and the changes recorded in all major items in the indexes are shown on Chart 3. Bought-in services such as truck transportation and insurance showed some price advances. Some of these higher costs led to

TABLE 7
SELECTED INDUSTRY SELLING PRICE INDEXES 1961 TO 1965
(1956=100)

	1961	1962	1963	1964	1965
Slaughtering and meat packing.....	113.5	119.4	115.4	111.1	120.8
Men's clothing.....	103.8	106.2	109.3	111.0	113.8
Sash, door and planing mills.....	100.4	100.3	101.9	104.6	107.9
Pulp mills.....	93.7	96.4	96.8	100.1	102.7
Steel ingots.....	121.1	120.0	119.8	120.3	122.2
Motor vehicles.....	116.8	119.1	119.8	120.2	119.1
Cement.....	106.5	108.4	110.8	112.3	115.4
Soaps.....	113.7	113.6	113.9	114.9	117.6

	1962	1963	1964	1965
	1961	1962	1963	1964
Per cent changes:				
Slaughtering and meat packing.....	+5.2	-3.4	-3.7	+8.7
Men's clothing.....	+2.3	+2.9	+1.6	+2.5
Sash, door and planing mills.....	-0.1	+1.6	+2.6	+3.2
Pulp mills.....	+2.9	+0.4	+3.4	+2.6
Steel ingots.....	-0.9	-0.2	+0.4	+1.6
Motor vehicles.....	+2.0	+0.6	+0.3	-1.0
Cement.....	+1.8	+2.2	+1.4	+2.8
Soaps.....	-0.1	+0.3	+0.9	+2.3

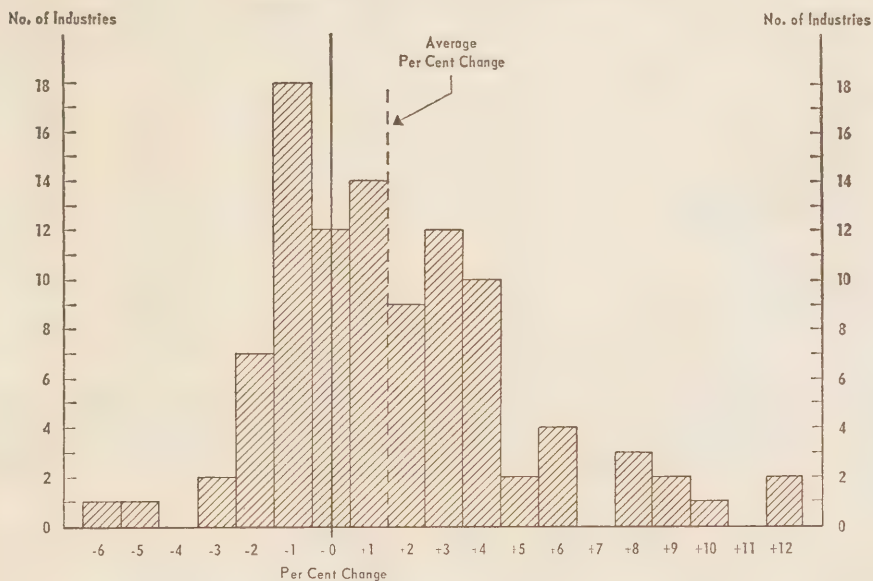
SOURCE: DBS *Prices and Price Indexes*.

price adjustments in final product markets, as was the case in construction, where tender prices during the latter half of the year were substantially higher than originally estimated in some parts of the country. In other cases, these cost trends were reflected in lower profit margins than those recorded during earlier years of the present expansion.

⁽¹⁾These figures are based on data collected from establishments employing 15 persons or more, and do not necessarily reflect changes in earnings in industries, such as construction, where smaller establishments or sub-contracting account for a significant part of total employed.

CHART 3

INDUSTRY SELLING PRICE INDEXES, 100 INDUSTRIES
PER CENT CHANGE IN SELLING PRICES
NOVEMBER 1964 TO NOVEMBER 1965



Consumer prices moved up during the year, partly in response to identifiable causes. The consumer price index for the year as a whole stood at 138.7 (1949=100), having advanced by 2.4 per cent over 1964. Table 8 shows the movement of the index and its components, and gives an indication of the areas in which the rise was most marked. Food prices in the early part of the year were affected by drought conditions in the eastern part of Canada and the United States, which led to higher prices for many vegetables. From mid-year

TABLE 8
 CONSUMER PRICE INDEX, 1961-1965
 (1949=100)

	1961	1962	1963	1964	1965
All items.....	129.2	130.7	133.0	135.4	138.7
Food.....	124.0	126.2	130.3	132.4	135.9
Housing.....	133.2	134.8	136.2	138.4	140.9
Clothing.....	112.5	113.5	116.3	119.2	121.4
Transportation.....	140.6	140.4	140.4	142.0	147.3
Health and personal care.....	155.3	158.3	162.4	167.8	175.5
Recreation and reading.....	146.1	147.3	149.3	151.8	154.3
Tobacco and alcohol.....	116.3	117.8	118.1	120.2	122.3
All commodities.....	120.0	121.0	123.1	124.7	126.7
Durables.....	116.1	115.3	115.5	114.5	114.6
Non-durables.....	120.7	122.1	124.6	126.7	129.2
Non-durables excluding food.....	118.3	119.1	120.3	122.4	124.1
Services.....	155.4	157.6	159.8	163.8	170.6

SOURCE: DBS *Prices and Price Indexes*

TABLE 9
CONSUMER PRICE INDEX, 1961-1965
(1949=100)

(Percentage changes, year to year)

	1962 1961	1963 1962	1964 1963	1965 1964	Feb. 1966 Feb. 1965
All items.....	+1.2	+1.8	+1.8	+2.4	+3.6
Food.....	+1.8	+3.2	+1.6	+2.6	+7.1
Housing.....	+1.2	+1.0	+1.6	+1.8	+2.1
Clothing.....	+0.9	+2.5	+2.5	+1.8	+3.2
Transportation.....	-0.1	-	+1.1	+3.7	+2.5
Health and personal care.....	+1.9	+2.6	+3.3	+4.6	+2.0
Recreation and reading.....	+0.8	+1.4	+1.7	+1.6	+2.0
Tobacco and alcohol.....	+1.3	+0.3	+1.8	+1.7	+1.3
All commodities.....	+0.8	+1.7	+1.3	+1.6	+3.5
Durables.....	-0.7	+0.2	-0.9	+0.1	-0.7
Non-durables.....	+1.2	+2.0	+1.7	+2.0	+4.2
Non-durables excluding food.....	+0.7	+1.0	+1.7	+1.4	+2.0
Services.....	+1.4	+1.4	+2.5	+4.2	+3.2

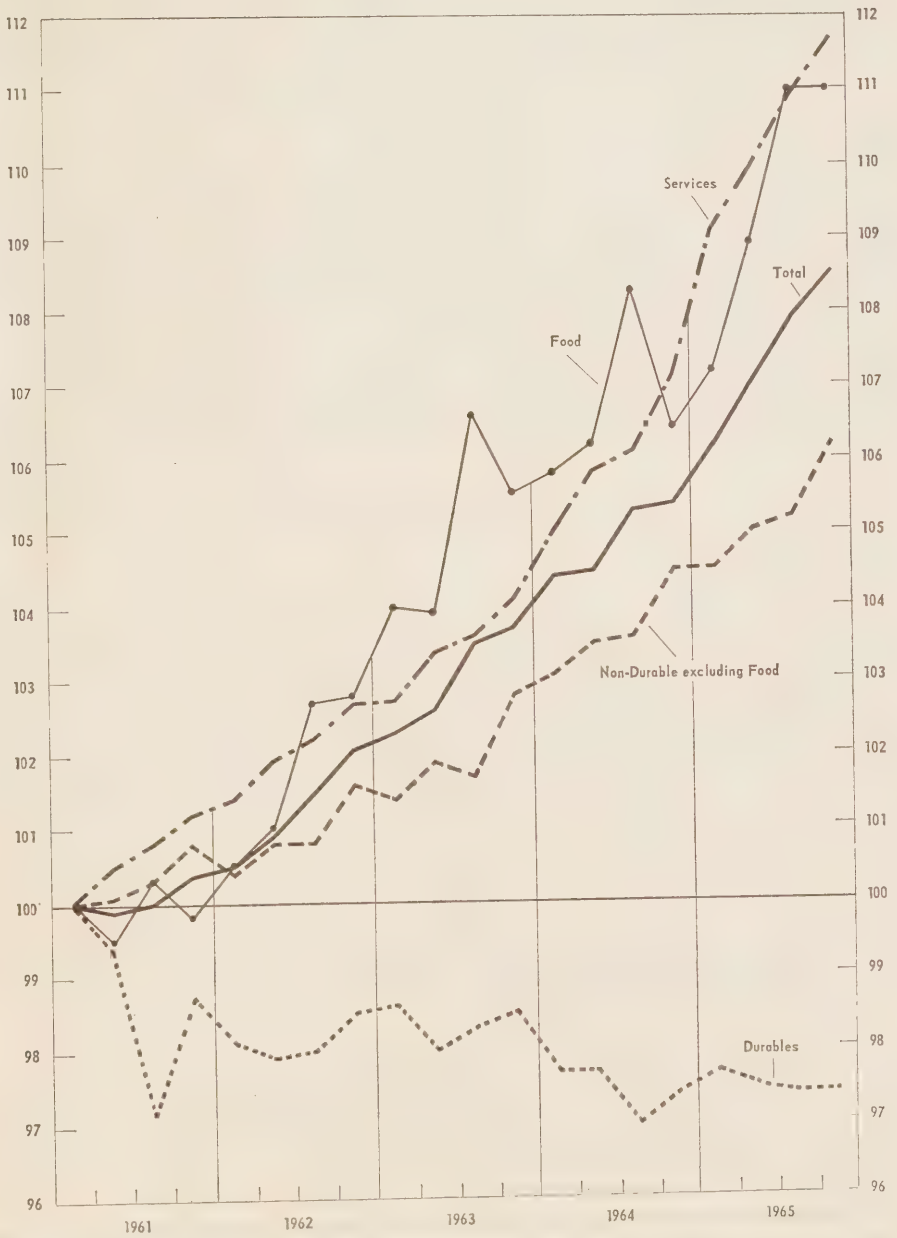
on, however, the major pressures came from a shortage of meat supplies in the United States, as a result of which meat prices rose sharply and have remained high. Other specific price gains included medical insurance premiums and automobile insurance rates, the latter reflecting higher accident rates and higher average claims.

In addition to this, however, the services component of the index moved upward, as the approach towards full utilization of resources which was achieved in 1965 was accompanied by continued upward movement of prices of services. This is an area in which the labour content of output is high, productivity gains are more difficult to achieve, or even to measure, and gains in wage rates are more directly reflected in prices. Price changes in this sector characteristically lag others in the cyclical context. Chart 4 illustrates the trends in the consumer price index during recent years.

Changes in the components of the wholesale price index reflected the trend in food prices, with the animal products index advancing sharply over the year. Movements of commodity prices on world markets, many of them upwards, were also reflected in the wholesale price index due to the importance of international trade in these commodities in the Canadian economy. Prices of wood products, affected by both the construction boom and tax changes, also moved up.

Until 1965, Canadian prices and unit labour costs in manufacturing enjoyed a relatively favourable record compared to that of many other industrialized countries. Only in the United States, where labour costs per unit of output had been stable since mid-1961, was the performance better than in Canada. During the course of 1965, however, Canadian unit labour costs in manufacturing moved up, rising to a level 2.3 per cent higher than they had been in 1964. Many wage contracts signed in 1965 provided for wage rate gains in the next two years in excess of those negotiated in the earlier part of the expansion, so that the rise in unit labour costs may well persist. If this were to occur, while the United States maintains greater stability, there would develop a worsening of Canada's competitive position vis-à-vis the United States, which is both our major supplier and our largest customer.

(Quarterly Averages, IQ 1961 = 100)



OUTLOOK FOR 1966

The economic climate changed during 1965, from one of moderate expansion in the early part of the year, to one of boom at present. This change was brought about by the rapidly rising level of public and private investment superimposed on rising demands by consumers, governments and from exports. Renewed expectations of continued expansion in the United States at this time represent a dramatic shift from the spring months, when there was a widespread belief that the expansion might be slowing down. As the year came to a close, a basic question in both countries was whether production could expand fast enough to meet the anticipated rapid increase in aggregate demand, so that economic stability would continue to be maintained.

In Canada, where the rate of unemployment, seasonally adjusted, was down to $3\frac{1}{2}$ per cent in the latter months of 1965, and where the actual rate of unemployment was well below that level in many areas, it was evident that slack resources in a position to be used economically by expanding general demand had all but disappeared. Markets showed signs of tightness. In these circumstances the emphasis in economic policy shifted from one of bringing unemployed resources into production through expansion of general demand, to one of ensuring that the long expansion would be sustained in accordance with the growth of capacity to produce. A higher rate of growth depends on improving the capacity and productivity of labour and capital. In the earlier stages of the upswing, the authorities had been able to bring into use unemployed resources through broad expansionary measures. The success of these measures in taking up slack means that the economy is now faced with problems of sustaining growth and economic stability by avoiding excesses rather than with problems of cyclical expansion.

The recent survey of public and private investment intentions in the Canadian economy indicates that plans have been made for a further substantial increase in fixed capital outlays by both government and business in 1966, similar to the increases of the preceding two years. In addition, there will be continued increases in other public expenditures on current account by the federal, provincial and municipal governments. With sustained increases in income, personal expenditures on durable goods, non-durable goods and services should rise considerably. Exports can be expected to increase further. This will reflect the continued rapid expansion foreseen in the United States, where a very large part of total Canadian production is sold, as well as the favourable world markets for Canadian wheat. The rate of increase in exports to the United States is expected to be substantially greater than that to the United Kingdom, Japan and other countries. Wheat sales to Russia and China and high levels of livestock production will continue to stimulate the farm economy, which will thereby be enabled to maintain its contribution to the general prosperity.

Taken together, these expenditures represent a total of final demand, in current prices, which is expected to exceed 1965 demands by about as much as those of 1965 exceeded those of 1964. The productive facilities of the Canadian economy are now close to their maximum rate of utilization, and the present and anticipated rate of expansion in demand appears likely to strain the resources currently available to meet it.

In circumstances such as this, additions to demand beyond this point serve to raise prices or draw imports from abroad, rather than adding much to

domestic economic activity. Expansion and growth become more dependent on measures which improve the supply capabilities of the economy, through increases in mobility, reductions in bottlenecks and a general upgrading of the quality of labour and capital.

The assessment of the outlook for the various sectors contained in these pages represents an appraisal and projection of existing trends, on the basis of the statistical and other survey evidence available at the present time.

Public and Private Investment Intentions

The investment intentions for 1966 currently reported indicate a continued expansion in both public and private outlays. On the basis of these reports, which are here discussed without making any allowance for any adjustments or shortfalls that may occur during 1966, it appears that demand for new housing construction will not be greatly changed, capital spending by governments, especially by provinces and their agencies, will again rise in response to growing needs, and the business sector will continue its present sharp expansion.

In the public and semi-public areas, the main outlays will be for universities, schools, hospitals, roads and highways. In addition, publicly-owned water and power utilities and other enterprises, as well as other provincial and municipal facilities, are responding to growing requirements by further expansion and new development.

In the business area, the remarkable expansion in investment in manufacturing continues unabated. In broad terms, the present expansion in capacity in manufacturing differs from that of 1955 to 1957, in that it appears less heavily oriented to processing raw materials, while placing somewhat more emphasis on advanced processing. Manufacturing investment is still based to a considerable degree on the resources which are Canada's natural endowment, but the degree of processing is now more advanced. Industries such as petro-chemicals, synthetic textiles, communications equipment, secondary iron and steel products, transportation equipment and appliances, have come to play a larger role. Basic industries such as mining, pulp and paper, and primary iron and steel products will also continue to expand their facilities in the current year.

In total, the rate of expansion of new facilities in manufacturing is expected to amount to 20 per cent in 1966. There was some shortfall in the achievement of planned outlays in 1965, and efforts will be made to make good this shortfall in the current year.

Substantial increases in new investment are also expected to take place in private power and gas utilities, retail trade and financial and commercial services. These and other developments are reviewed more fully in the recently tabled "Public and Private Investment Outlook, 1966".

It is worthy of note that a substantial part of business investment, consisting of machinery and equipment required to expand productive facilities in Canada, is not produced by domestic manufacturing resources. This equipment must therefore be imported. These imports, while contributing to Canada's economic growth and development, serve to absorb expenditures which would otherwise add to domestic demand pressures. At the same time, these expenditures add to the deficit on the Canadian balance of international payments.

The Second Annual Review of the Economic Council of Canada referred to the high capital requirements implicit in the particular industrial structure of Canada, which is heavily oriented towards mining, electric power, certain kinds of manufacturing, and rail and air transportation. These industries all are highly capital intensive in nature. This distinctive feature of Canada's industrial structure shows up in one of the highest overall ratios of the stock of capital to the volume of production that is found anywhere. The new investments planned for 1966 should increase the stock of capital at about the same rate as the volume of output can be expected to increase. Accordingly, very high rates of utilization of the existing capital equipment will continue to be required.

The construction industry experienced a more rapid increase in output and employment than any other during the past year and is probably operating at close to its maximum capacity. The demands indicated by the investment intentions survey imply a further large increase in output of construction in the coming year.

Residential construction has already levelled off and may be expected to continue at its present rate in 1966. There will likely be a small increase in the value of construction put in place, but the volume of work is expected to remain about unchanged from that of 1965. A shortage of new mortgage funds made itself felt in the late months of 1965. The N.H.A. interest rate on residential mortgages was increased in January, 1966, in an effort to attract more funds in the current year. It is expected that this action will arrest the decline in housing starts which was taking place within 1965. Conventional mortgages are expected to provide about the same amount of financing as last year.

Consumer Demands

In the projected circumstances of high-level employment and earnings, consumers appear likely to increase their purchases of durable and non-durable goods and services in 1966 at approximately the same rate as in the past year. Personal expenditures on durable goods will probably not advance quite as rapidly as in 1965, since spending on the furniture and appliances which go into new houses will be affected by the level rate of residential construction now expected for 1966. Manufacturers expect that the present high rate of automobile purchases will continue in 1966. There has been a continuous increase in number of cars per family and a reduction in the average age of the stock of cars on the road, for a number of years. In addition, the large number of new entrants to the labour force makes increased car ownership possible.

Non-durables purchases, such as food and clothing, should advance at much the same rate as in the past year. The volume of consumer purchases of services has continued to rise, while prices of many of these items have increased substantially. These prices are expected to continue to rise in the months ahead. No diminution in the rate of increase of consumer expenditure on services therefore seems likely in 1966 and the outlook generally is for an advance of much the same order as that recorded in 1965.

Foreign Trade and the Balance of Payments

The prospect of increased export sales in 1966 is encouraging. This is particularly the case with respect to exports to the United States. Current official forecasts in that country present a picture of very buoyant economic

conditions in the coming year, and these conditions will involve a substantial increase in Canadian exports. On the past record, an increase in industrial production in the United States has been accompanied by a more than proportionate increase in their requirements for Canadian raw materials and fabricated products. There is no reason to expect that these past relationships between the United States' economic conditions and Canada's export sales will alter in 1966. In addition to these exports, the wheat sales to the U.S.S.R. and to mainland China will add to total exports in 1966. These developments will be supplemented by some increase in sales to other overseas countries. Taking all of these factors into account, export sales may be expected to increase at a higher rate in 1966 than they did in 1965.

Import requirements are expected to continue to increase as a result of the augmented demands for both consumption and investment goods. The near-balance on commodity trade recorded in 1965 is not expected to change by much. The traditionally negative balance on the current account for non-commodity items can be expected to grow in 1966.

Government Expenditures

The anticipated increases in capital outlays, particularly by provincial and municipal governments, has already been noted. The current or non-capital outlays of these governments, as well as those of the federal government, are expected to increase in 1966 at a rate in excess of that of 1965. Some of this will, of course, represent an increase in costs to government of labour and materials.

On the basis of current projections and current tax rates, (i.e. before any budgetary changes), it appears likely that the federal government will remain in a position of surplus on a national accounts basis, although the surplus will be reduced somewhat from 1965 levels. All of the information is not yet available, but present evidence suggests that the large increases in expenditures, both current and capital, by provincial and municipal governments may be approximately matched by increases in revenues from higher levels of economic activity and from some increases in tax rates. On balance, one might not expect much change in the combined deficit of provincial and municipal governments from the position in 1965. At the same time, the accumulations in the new government Pension Plans represent additional saving that will serve to offset the trend toward dissaving of all levels of government combined. In connection with the funds made available from the new Pension Plans, some provincial authorities have announced that they will be used to finance capital outlays beyond those of government departments, for example, schools and universities.

Government expenditures on goods and services, together with consumer spending, business capital formation, inventory increases and exports, constitute the total demand on Canadian productive resources. Almost three-fifths of total expenditures by government are spent on goods and services, and last year these expenditures absorbed $18\frac{1}{2}$ per cent of the nation's output. Since government expenditures on goods and services will probably increase more rapidly than output in 1966, this ratio will increase fractionally. This rate of advance in government demands for goods and services in 1966 is expected to be greater than the

rise in consumer demands and probably close to the rate of increase expected in exports. An even greater demand on our productive resources is expected to result from the increase in business capital formation. It is the conjuncture of these added demands that would give rise to the strains that may develop in 1966.

Capabilities of Supply

The emergence of this combination of consumer, business, government and export demands, after five years of continued expansion, will probably strain available sources of supply in 1966. While some part of this strain will be taken up, as already noted, by imports, a large part of the total increase in demand will fall upon Canadian sources of supply. Any assessment of the likely course of events in 1966 therefore calls for a review of probable developments in the labour force, the capital facilities of the nation, and the gains in productivity which might be achieved in the current situation.

Over time, improvements in productivity can be expected to take place. In the short run, however, a number of rigidities can be expected to have an important effect on developments. During the past year, there have been substantial additions to the labour force and to the stock of capital facilities. There have been continued advances in productivity, but not as large as those achieved in the first three or four years of expansion. It is a common feature of most business cycles that productivity advances are more rapid in the early stages of an expansion, when resources are abundant, than in the later stages of expansion, when all available resources are pressed into use, and various shortages and bottlenecks appear. Of course the situation varies from industry to industry, from occupation to occupation and from region to region. Efforts are under way to improve productivity through various public and private efforts, but these require time to make their maximum contribution.

Looking forward in 1966, a continuation of recent broad trends in labour supply, capital facilities and economic productivity is expected. The domestic labour supply is likely to be augmented by a flow of immigrants at least as large as in the past year. The inflow of young adults and of married women into the labour force is expected to continue at the same rate as in the past year, or perhaps even a little more rapidly. A reduction of unemployment below the 1965 average of 3.9 per cent may be expected, since the rate in the later months of the past year was below that. There will be a larger number of part-time workers, particularly among married women, and among those who were previously retired or voluntarily idle. The increasing amount of part-time work is expected to continue to reduce average hours of work, at the same rate as in the past year. Taking all of these factors into account, it should be possible to increase substantially the total amount of manhours available for production. However, further substantial advances in manhour productivity cannot be counted upon in the present circumstances. Therefore, the increase in aggregate output of goods and services in the economy (apart from the crop prospects)

will be hard pressed to equal the gains of the past year, when part of the increased output came out of the existence of a considerable amount of economic slack.

Capital facilities have been augmented by the massive investment programme of 1965, but the present rates of capacity utilization appear very high (insofar as available measurements permit an inference). The high utilization rates themselves suggest one reason why current investments are increasing rapidly and why construction activity and machinery and equipment purchases are at such a high level.

Taking into account all of the increases in supply which can be expected in 1966, the increase in volume of output cannot be expected to reach that of 1965, and it seems likely that the increase attained will be the maximum possible within the limitations imposed by physical supply.

Prices

The forces currently bearing upon the determination of prices are of such complexity that firm conclusions on probable price trends cannot be drawn from a broad review of total supply and demand. In assessing the likely course of price developments in 1966, the relationships between projected demand and projected supply, however, will have important consequences. It is clear from the factors reviewed in these pages that current upward price trends could well persist, unless significant productivity improvements emerge to add to the supply capability of the economy, or unless the rate of increase in demand should turn out to be notably lower than currently expected. Some prices which affect the indexes fairly heavily, such as those of food, are governed by the vagaries of nature and prediction is difficult. Other factors also, having no direct relationship to supply or demand forces, may also contribute to the movement of prices. (One such factor is the commencement in January 1966 of payment of contributions to the Canada and Quebec Pension Plans, which will add somewhat to costs.) All of these factors, in the context of conditions in the early months of 1966, suggest that it would not be prudent to assume a rate of price increase any less than that recorded in 1965.

MANPOWER IN THE CANADIAN ECONOMY

The Canadian labour force⁽¹⁾ in 1965 increased by 3.0 per cent over 1964. This growth was remarkably rapid by recent standards and also in comparison with the experience of other major industrialized nations. It reflected natural increase, higher immigration, and a rise in the rates of participation of the population in the labour force. Increased participation, in turn, was associated with the buoyancy of employment opportunities in most parts of the country. For the same reason, the movement out of agriculture into non-farm jobs accelerated in 1965. Major developments in the labour force, employment and unemployment are summarized in Table 10.

⁽¹⁾Labour force and employment data analysed in this section are taken from *The Labour Force*, published monthly by DBS and the Department of Labour.

TABLE 10
LABOUR FORCE, EMPLOYMENT AND UNEMPLOYMENT, CANADA
1957 to 1965
Thousands of Persons

	1957	1958	1959	1960	1961	1962	1963	1964	1965
Labour Force.....	6,008	6,137	6,242	6,411	6,521	6,615	6,748	6,933	7,141
Employed.....	5,731	5,706	5,870	5,965	6,055	6,225	6,375	6,609	6,862
Unemployed.....	278	432	372	446	466	390	374	324	280
Year-to-year change, per cent									
Labour Force.....	..	2.1	1.7	2.7	1.7	1.4	2.0	2.7	3.0
Employed.....	..	-0.4	2.9	1.6	1.5	2.8	2.4	3.7	3.8
Average of monthly rates									
Unemployment rate ⁽¹⁾	4.6	7.0	6.0	7.0	7.1	5.9	5.5	4.7	3.9

(1) Unemployed as a per cent of the labour force.

SOURCE: DBS and Department of Labour, *The Labour Force*.

Total employment grew more rapidly than the labour force, rising by 3.8 per cent. Non-agricultural employment rose even more rapidly, by 4.8 per cent. Contributing to this were sharp gains in the employment of women and young people. The seasonally-adjusted unemployment rate in 1965 averaged 3.9 per cent, and was in the region of 3.5 per cent during the final quarter of the year.

Regional developments generally reflected the national pattern. In all regions, employment grew more rapidly than labour force, and non-agricultural employment grew more rapidly than total employment. The movement out of agriculture was most marked in the Atlantic region, but the percentage gain in employment was greatest in British Columbia. The unemployment rate for the year was highest in the Atlantic region and lowest in Ontario. The regional situation for 1965 is summarized in Table 11.

TABLE 11
LABOUR FORCE, EMPLOYMENT AND UNEMPLOYMENT BY REGIONS, 1965
Thousands of Persons

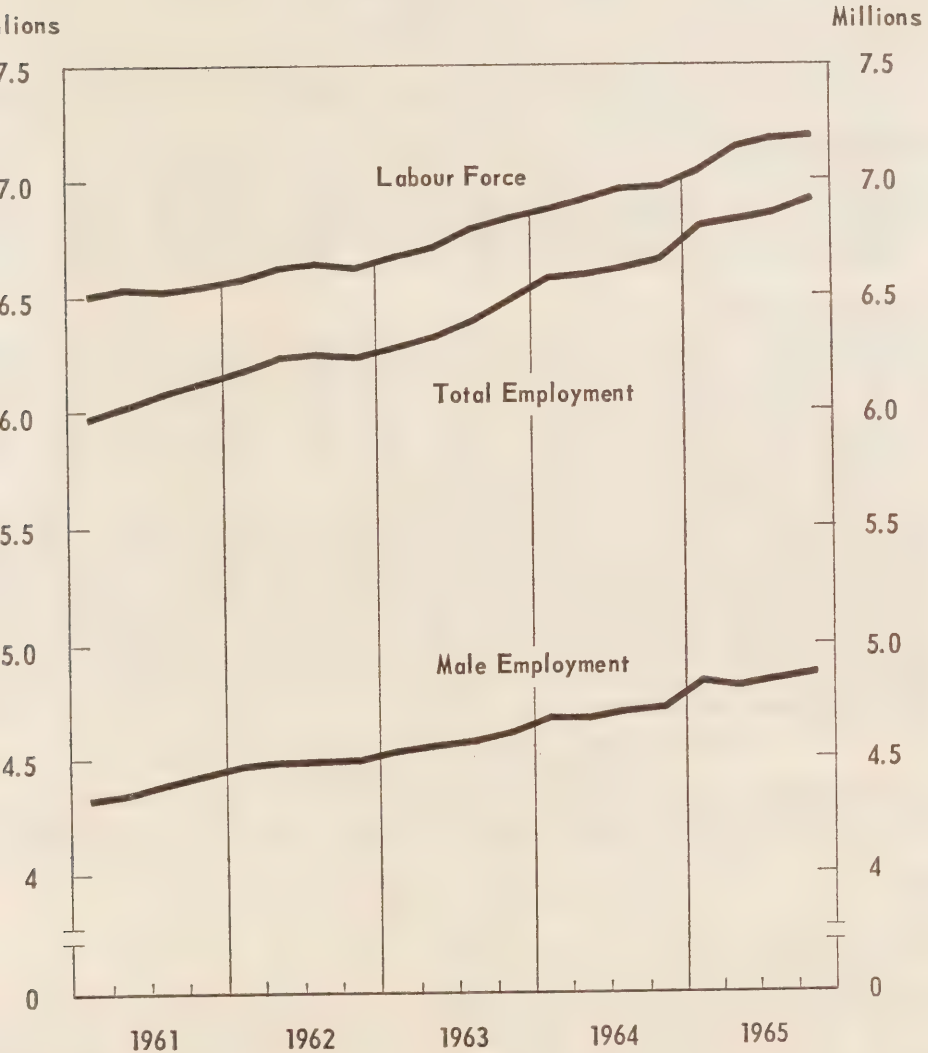
	Atlantic	Quebec	Ontario	Prairie	British Columbia
Labour Force.....	611	2,022	2,614	1,228	666
Employed.....	566	1,912	2,548	1,196	639
Unemployed.....	45	110	66	32	27
Unemployment rate (per cent)....	7.4	5.4	2.5	2.6	4.1
Per cent growth in labour force....	3.9	3.6	2.3	2.4	4.2
Per cent growth in employment.....	4.4	4.7	3.0	2.9	5.6
Per cent growth in non-agricultural employment.....	5.8	4.8	3.6	6.8	5.8

SOURCE: DBS and Department of Labour, *The Labour Force*.

These developments are discussed in detail in the following pages.

CHART 5

LABOUR FORCE, TOTAL EMPLOYMENT AND MALE EMPLOYMENT 1961 TO 1965



The Labour Force

The Canadian labour force was larger by 208,000 persons, or 3.0 per cent, in 1965 than in 1964. Table 12 summarizes the changes which have occurred in recent years. From this table, it may be seen that the rate of increase of women in

the labour force was far higher than that of men. The number of women in the labour force grew in 1965 by 104,000, exactly matching the increase in the number of men, while the increase relative to the number of women in the 1964 labour force was 5.3 per cent. A review of the trend since 1957 (shown in the table) reveals a consistently higher year-to-year growth rate in the female labour force than that of the labour force as a whole.

TABLE 12
THE CANADIAN LABOUR FORCE
1957 to 1965
Thousands of Persons

	1957	1958	1959	1960	1961	1962	1963	1964	1965
Labour force—									
Total.....	6,008	6,137	6,242	6,411	6,521	6,615	6,748	6,933	7,141
Agricultural.....	755	731	712	697	698	675	662	641	602
Non-agricultural.....	5,253	5,406	5,530	5,714	5,823	5,940	6,086	6,292	6,540
Men.....	4,573	4,641	4,687	4,754	4,782	4,819	4,879	4,961	5,065
Women.....	1,435	1,496	1,554	1,657	1,739	1,797	1,870	1,972	2,076
Age 14-19 years.....	587	591	603	627	630	648	672	700	738
Percent change, year to year—									
Total.....		2.1	1.7	2.7	1.7	1.4	2.0	2.7	3.0
Agricultural.....		-3.2	-2.6	-2.1	0.1	-3.3	-1.9	-3.2	-6.1
Non-agricultural.....		2.9	2.3	3.3	1.9	2.0	2.5	3.4	3.9
Men.....		1.5	1.0	1.4	0.6	0.8	1.2	1.7	2.1
Women.....		4.3	3.9	6.6	4.9	3.3	4.1	5.5	5.3
Age 14-19 years.....		0.7	2.0	4.0	0.5	2.9	3.7	4.2	5.4

SOURCE: DBS and Department of Labour, *The Labour Force*.

The growth of the 14 to 19-year age group in the labour force, by 38,000 persons or 5.4 per cent, was mainly a reflection of demographic trends, and continued the acceleration which has been in evidence since 1962. In 1961, young people formed 9.7 per cent of the labour force, while in 1965 they represented 10.3 per cent. In part, however, it also reflected an upturn in participation rates in this age-group, reversing the trend of recent years. In turn, this was largely accounted for by a greater proportion of 18 and 19 year olds in this age group than has recently been the case.

PARTICIPATION RATES, POPULATION 14-19 YEARS
(Labour force as a per cent of population)

	1960	1961	1962	1963	1964	1965
Men.....	42.8	40.3	39.6	39.2	38.3	38.7
Women.....	32.6	32.3	30.9	29.9	29.9	30.2

The male labour force, affected in part by the influx of teenagers, also grew more rapidly than in any recent year. The 55 to 64 age group continued the modest rise in its participation rate which first became evident in 1964. Other age groups maintained the characteristic stability of their labour force participation.

Immigration contributed to the labour force increase, with the number of immigrants destined for the labour force in the first three quarters, at 56,000, being almost 30 per cent larger than the number a year earlier. The majority of these were adult males.

A major feature of the labour force scene in 1965 was the acceleration in the movement out of agriculture. The agricultural labour force declined by 6.1 per cent, compared to a fall of 3.2 per cent in 1964. The shift from agriculture into non-agricultural occupations caused the non-farm labour force to rise by 3.9 per cent, compared with the 3.0 per cent increase recorded for the total labour force.

This accelerated shift, together with the uptrend in participation rates, the substantial increase in the female labour force, and the higher immigration were largely accounted for by the growth in employment opportunities in non-agricultural industries. A response of this nature to increases in the demand for labour has become a familiar feature of the Canadian economy in the postwar period, indicating the existence of a high degree of elasticity in the supply of labour. At the same time, there were proportionately fewer workers with experience in modern Canadian industry among those obtaining jobs in 1965, as the pool of experienced unemployed shrank, while there were proportionately more workers entering employment direct from the home, from school, from abroad, or from the farm sector. Many of the women who took jobs in 1965 worked only on a part-time basis. These developments had an important bearing upon the measured rate of overall productivity improvement in 1965, as discussed below.

The contribution made by the skills of new entrants to the labour force, and by the upgrading or more efficient use of the skills of those already at work, cannot be precisely measured. Some indication of the situation and prospects, however, is given by the record of enrolments and completions in the various technical and vocational institutes and schools now established in all regions of Canada. The numbers completing courses at the vocational high schools in 1965 are estimated to have been substantially higher than the 32,000 recorded a year earlier; the number of students in these courses has almost doubled in recent years. Graduations from two-year courses at the institutes of technology in 1965 were 3,100, but some 22,000 students are now enrolled and graduations will increase sharply. Enrolments in courses for retraining the unemployed, at 60,000, are currently 20 per cent higher than they were in 1964-65. Enrolments in these and other courses, all of which are primarily under provincial administration, but which have been made available through federal-provincial co-operation and federal financial assistance, have been rising sharply in recent years. These trends may be expected to contribute more to the raising of levels of skill in future years, both as the number of graduates increases and as they acquire experience in applying their new training.

The numbers of professional and skilled immigrants have of course risen as immigration has risen. The distribution among the various kinds of skill and occupation has not, however, changed to any marked extent in recent years.

IMMIGRANTS DESTINED TO THE LABOUR FORCE
DISTRIBUTION BY SKILLS AND OCCUPATION
(Per cent)

	9 months 1962	9 months 1963	9 months 1964	9 months 1965
Managerial, professional and clerical.....	38.2	36.9	37.3	38.0
Other skilled and semi-skilled.....	47.4	50.4	48.7	49.2
Labourers and agriculture.....	14.4	12.7	14.0	12.8
	100.0	100.0	100.0	100.0

Employment

The number of people in employment in 1965 was higher by 253,000, or 3.8 per cent, than it was in 1964. Non-agricultural employment rose by 4.8 per cent, while the number of young people with jobs rose by 7.2 per cent. The major developments of recent years in employment are summarized in Table 13.

TABLE 13
EMPLOYMENT, CANADA
1957 to 1965
Thousands of Persons

	1957	1958	1959	1960	1961	1962	1963	1964	1965
Employment—									
Total.....	5,731	5,706	5,870	5,965	6,055	6,225	6,375	6,609	6,862
Agricultural.....	748	718	700	683	681	660	649	630	594
Non-agricultural.....	4,983	4,988	5,170	5,282	5,374	5,565	5,726	5,979	6,268
Men.....	4,329	4,263	4,363	4,368	4,381	4,488	4,567	4,698	4,842
Women.....	1,402	1,442	1,507	1,597	1,674	1,737	1,808	1,911	2,020
Age 14-19 years.....	537	515	536	545	548	573	596	628	673
Per cent change, year to year—									
Total.....		-0.4	2.9	1.6	1.5	2.8	2.4	3.7	3.8
Agricultural.....		-4.0	-2.5	-2.4	-0.3	-3.1	-1.7	-2.9	-5.7
Non-agricultural.....		0.1	3.6	2.2	1.7	3.6	2.9	4.4	4.8
Men.....		-1.5	2.3	0.1	0.3	2.4	1.8	2.9	3.1
Women.....		2.9	4.5	6.0	4.8	3.8	4.1	5.7	5.7
Age 14-19 years.....		-4.1	4.1	1.7	0.6	4.6	4.0	5.4	7.2

SOURCE: DBS and Department of Labour, *The Labour Force*.

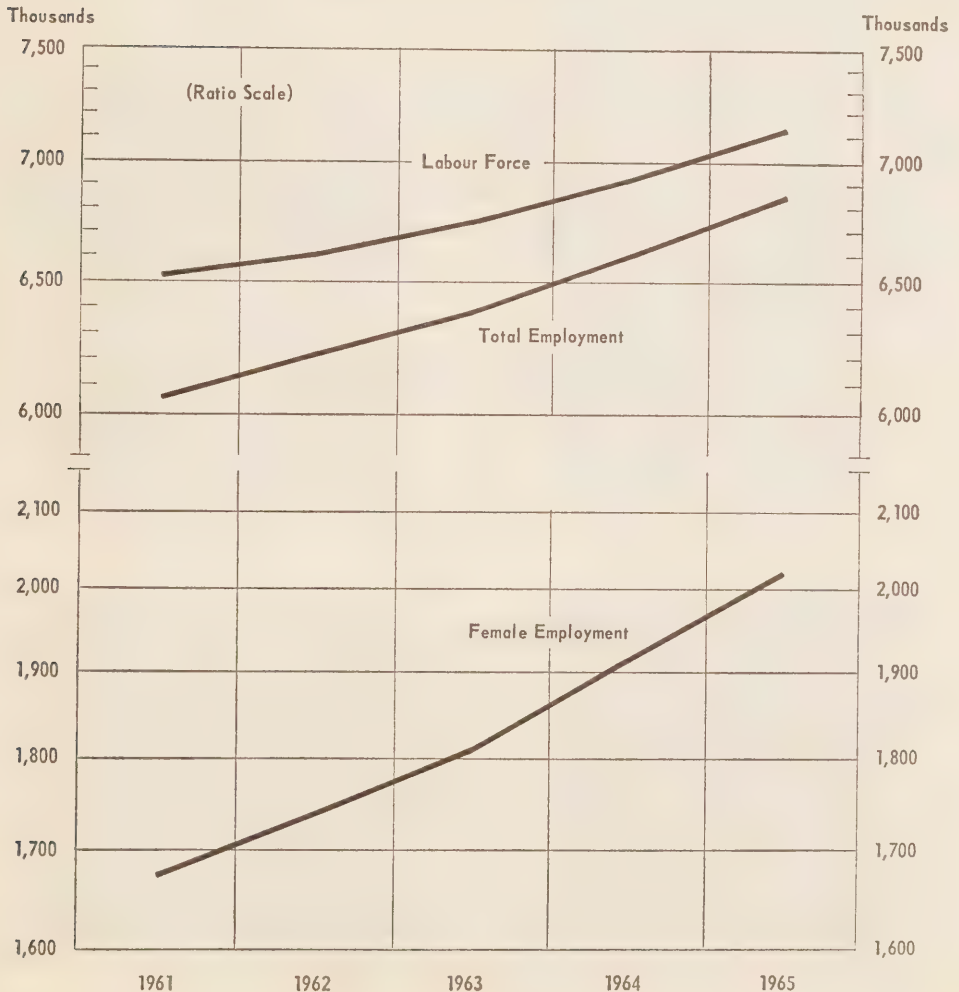
This table indicates the vulnerability of the teen-age group, with its relative lack of skills and experience, to fluctuations in the growth of employment opportunities. In 1958, for example, a fractional decline in total employment from the very high 1957 levels was accompanied by a very much greater than proportional drop in the number of young people with jobs. In the same way, the percentage gain in teen-age employment in 1965 was almost double that recorded for total employment.

TABLE 14
LABOUR FORCE AND EMPLOYMENT
GROWTH RATES, 1949 TO 1965 AND 1961 TO 1965

	Per cent per year compound rate	
	1949 to 1965	1961 to 1965
Labour Force:		
Total.....	2.2	2.3
Agricultural.....	-3.6	-3.6
Non-agricultural.....	3.1	2.9
Men.....	1.5	1.4
Women.....	4.1	4.5
Age 14-19 years.....	1.6	4.0
Employment:		
Total.....	2.1	3.2
Agricultural.....	-3.6	-3.4
Non-agricultural.....	3.1	3.9
Men.....	1.4	2.5
Women.....	4.1	4.8
Age 14-19 years.....	1.4	5.3

The number of women with jobs has revealed a very high year-to-year growth record in recent years. The annual rate of growth between 1961 and 1965 was 4.5 per cent, rather greater than the 4.1 per cent annual growth rate recorded over the entire 1949 to 1965 postwar period. Table 14 sets out the growth rates of the labour force and of employment over these periods, for purposes of comparison, and Charts 5 and 6 show these comparisons graphically. Women now represent 29 per cent of the employed labour force, compared to 22 per cent in 1949. It is of interest to note that the increase in employment of adult women has been

CHART 6
LABOUR FORCE, TOTAL EMPLOYMENT AND
FEMALE EMPLOYMENT
1961 TO 1965



heavily concentrated among those 35 years of age and above, while the number of employed women in the age group 25 to 34 years has changed to a much lesser extent.

EMPLOYMENT OF ADULT WOMEN

Year	Age Group			
	25 to 34	35 to 44	45 to 54	55 to 64
	(Thousands of persons)			
1965.....	361	417	367	188
1956.....	292	248	185	87
Increase 1956 to 1965.....	69	169	182	101

As a result of the continued growth of job opportunities in 1965, the number of unemployed declined again from the previous year's level. The unemployment rate for the year as a whole was 3.9 per cent, and the rate towards the end of the year averaged around 3.5 per cent on a seasonally adjusted basis. The 1965 unemployment rate was the lowest since 1956, when it was 3.4 per cent. Unemployment levels varied greatly among the different regions of Canada, as discussed in some detail below, and in some areas there were shortages of many kinds of skilled labour.

UNEMPLOYMENT RATE, 1957 TO 1965 (Unemployed as a per cent of the labour force)

1957	1958	1959	1960	1961	1962	1963	1964	1965
4.6	7.0	6.0	7.0	7.1	5.9	5.5	4.7	3.9

Regional Developments

The regional estimates of 1965 labour force and employment, illustrated in Chart 7, revealed a continuation of excess labour supply in some areas, while in others the flow of new entrants and new skills was insufficient to meet the need for workers which developed in the course of the year. In the Atlantic region, the total labour force rose by 3.9 per cent and total employment by 4.4 per cent, so that there was again a fall in the unemployment rate. The movement from agriculture was very marked in the Atlantic region, and non-agricultural employment rose by 5.8 per cent. Employment of young people rose even more rapidly. (These changes are summarized in Table 15). However, the unemployment rate in this region, at 7.4 per cent, remained substantially higher than that in any of the other major regions, while the percentage decline in the number of unemployed, compared to that in other areas, was smaller.

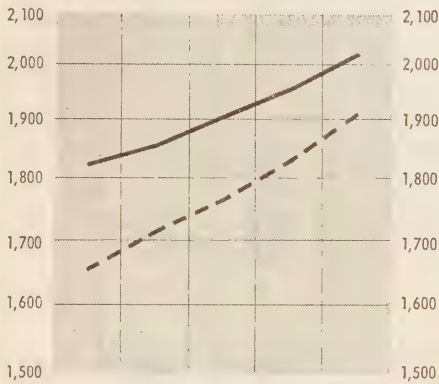
CHART 7

LABOUR FORCE AND EMPLOYMENT BY REGION 1961 TO 1965

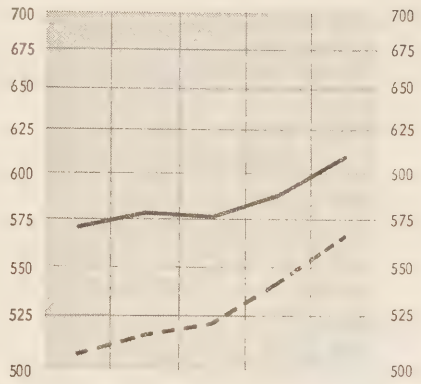
— LABOUR FORCE
- - - EMPLOYMENT

(Ratio Scale)

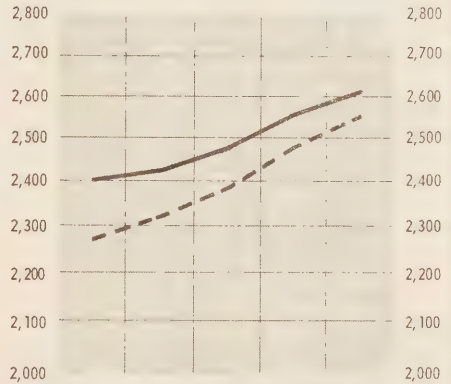
QUEBEC



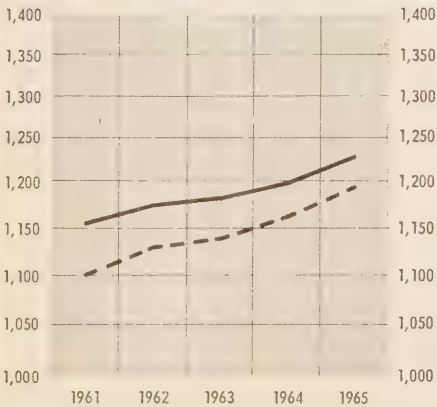
ATLANTIC



ONTARIO



PRAIRIE



BRITISH COLUMBIA

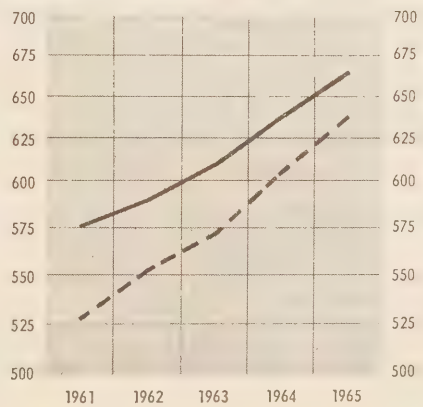


TABLE 15

LABOUR FORCE, EMPLOYMENT AND UNEMPLOYMENT BY REGIONS,
1964 and 1965

		1964	1965	Change Per cent
		Thousands of Persons		
<i>Atlantic Region</i>				
Labour Force:				
Total.....	588	611	3.9	
Non-agricultural.....	548	577	5.3	
Employment:				
Total.....	542	566	4.4	
Non-agricultural.....	504	533	5.8	
Age 14-19 years.....	57	62	8.8	
Unemployed.....	46	45	-2.2	
<i>Quebec Region</i>				
Labour Force:				
Total.....	1,951	2,022	3.6	
Non-agricultural.....	1,832	1,903	3.9	
Employment:				
Total.....	1,827	1,912	4.7	
Non-agricultural.....	1,713	1,796	4.8	
Age 14-19 years.....	190	204	7.4	
Unemployed.....	124	110	-11.3	
<i>Ontario Region</i>				
Labour Force:				
Total.....	2,556	2,614	2.3	
Non-agricultural.....	2,394	2,461	2.8	
Employment:				
Total.....	2,473	2,548	3.0	
Non-agricultural.....	2,314	2,397	3.6	
Age 14-19 years.....	211	224	6.2	
Unemployed.....	83	66	-20.5	
<i>Prairie Region</i>				
Labour Force:				
Total.....	1,199	1,228	2.4	
Non-agricultural.....	901	955	6.0	
Employment:				
Total.....	1,162	1,196	2.9	
Non-agricultural.....	866	925	6.8	
Age 14-19 years.....	120	128	6.7	
Unemployed.....	37	32	-13.5	
<i>British Columbia</i>				
Labour Force:				
Total.....	639	666	4.2	
Non-agricultural.....	616	644	4.5	
Employment:				
Total.....	605	639	5.6	
Non-agricultural.....	583	617	5.8	
Age 14-19 years.....	50	55	10.0	
Unemployed.....	34	27	-20.6	

SOURCE: DBS and Department of Labour, *The Labour Force*.

The Quebec region continued to experience above-average unemployment in the eastern areas, while conditions were much tighter in the western part of the province. In contrast to other areas, employment in agriculture in Quebec rose slightly. The total labour force rose by 3.6 per cent and total employment by 4.7 per cent. Employment of young people rose by 7.4 per cent. The unemployment rate for the year as a whole averaged 5.4 per cent, which (as Table 16 indicates) was below that of the Atlantic region but higher than that in any other region.

TABLE 16
UNEMPLOYMENT RATES BY REGION
1957 to 1965

(Unemployed as a per cent of the Labour Force)

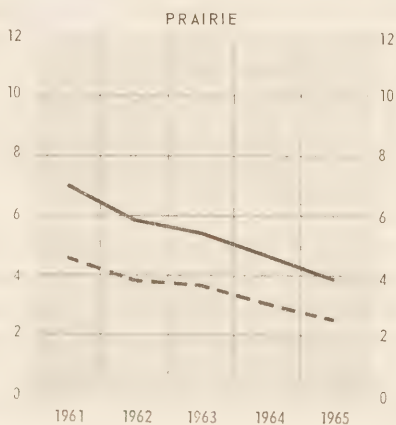
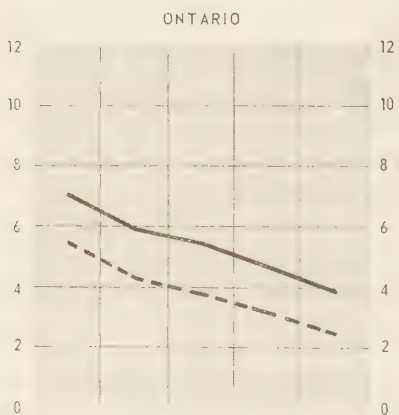
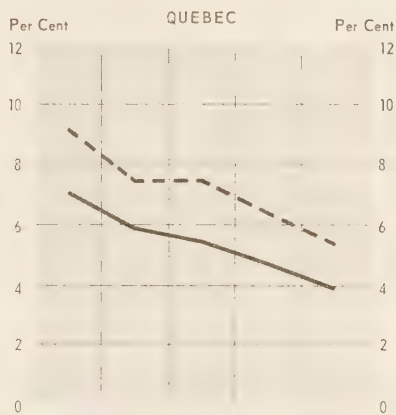
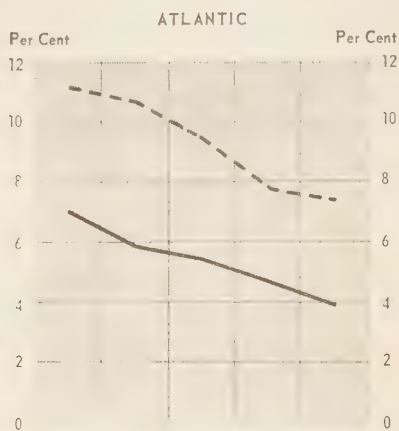
Region	1957	1958	1959	1960	1961	1962	1963	1964	1965
Atlantic.....	8.4	12.5	10.9	10.7	11.2	10.7	9.5	7.8	7.4
Quebec.....	6.0	8.8	7.8	9.1	9.2	7.5	7.5	6.4	5.4
Ontario.....	3.4	5.4	4.5	5.4	5.5	4.3	3.8	3.2	2.5
Prairie.....	2.6	4.1	3.2	4.2	4.6	3.9	3.7	3.1	2.6
British Columbia.....	5.0	8.6	6.5	8.5	8.5	6.6	6.4	5.3	4.1
Canada.....	4.6	7.0	6.0	7.0	7.1	5.9	5.5	4.7	3.9

In Ontario, the increase in the labour force, at 2.3 per cent, was the lowest in Canada. The number of unemployed fell by over 20 per cent during the year, and the unemployment rate averaged 2.5 per cent for the year. The Prairie region, which also started the year at high employment levels, similarly experienced a relatively small increase in total labour force, namely, 2.4 per cent. In this region, however, the non-agricultural labour force rose by 6.0 per cent, with approximately one-half of the increase arising from a movement out of agriculture. Employment rose by 2.9 per cent and the unemployment rate fell to 2.6 per cent from the 3.1 per cent of the year before.

The labour force in British Columbia rose by 4.2 per cent, which was the highest rate recorded in any region. Total employment, rising by 5.6 per cent, was also a regional record. There was no net movement out of agriculture in this region, so that all of the net gain in non-farm employment came from natural increase, higher participation rates, and immigration from other provinces or from outside Canada. The 14-19 age group made particularly marked employment gains in this region in 1965.

UNEMPLOYMENT RATES, CANADA AND BY REGION 1961 TO 1965

— CANADA
- - - REGION



OUTPUT, EMPLOYMENT AND CAPITAL

Output by Industry

Over the period from 1949 to 1965, total real output in the industrial and commercial economy increased at a compound annual rate of about $4\frac{3}{4}$ per cent. The 1964 and 1965 increases of approximately $6\frac{1}{2}$ per cent each year were therefore considerably in excess of the long term average.

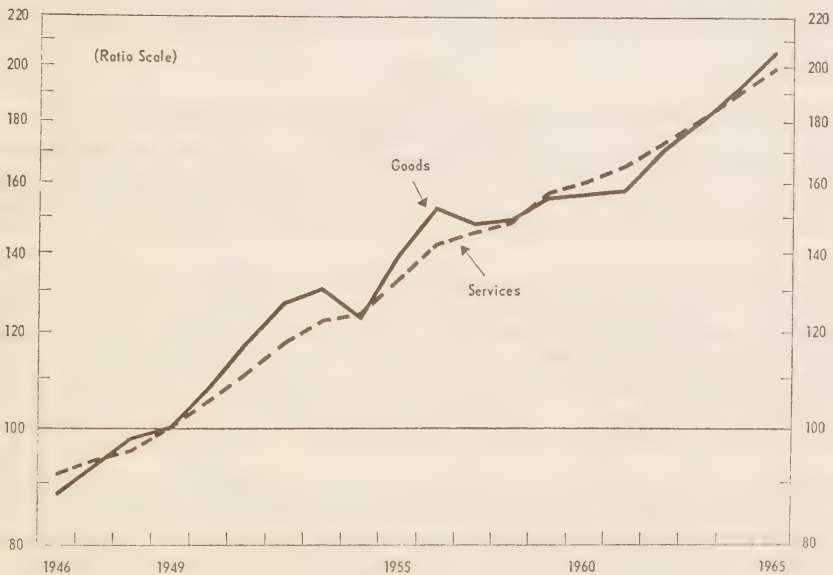
This whole period can be subdivided into three periods of alternating fast and slow growth. The first period can be taken to include the Korean war and the subsequent resource boom which culminated in the 1957 peak; the second period extended to the cyclical trough in the first quarter of 1961, and the third period has extended from 1961 to date. The increases in output in 1964 and 1965 can therefore be seen in the perspective of a major cyclical expansion.

The industrial composition of private non-farm output has not changed greatly over the whole postwar period, although there have been times when particular industries were growing more quickly or more slowly than the general average. Over the whole period, the growth rates of individual industries have been remarkably uniform. With the exception of mining and electric power, both of which have had growth rates of 8 per cent, most other major groups were in the range of 4 to 5 per cent per year, paralleling the business output trend rate of $4\frac{3}{4}$ per cent. Output in public and community services has grown at $4\frac{1}{4}$ per cent, and agricultural output has grown at less than the average rate, recording about $2\frac{1}{2}$ per cent per year.

CHART 9

REAL OUTPUT IN GOODS AND SERVICE PRODUCING INDUSTRIES, 1946 TO 1965

(1949 = 100)



In terms of current dollar values, the service industries as a group have expanded more rapidly than the goods-producing industries. In terms of the volume of output, production of services in real terms has shown a parallel growth to that of goods, as Chart 9 illustrates. Output of services related to commodity distribution, such as trade and much of transportation, has, as expected, displayed growth rates and, more recently, cyclical patterns very similar to those of commodity production. Output of other services, such as finance, insurance and real estate, also indicate long term trends generally parallel to those of aggregate business product.

Within these broad aggregates, there were of course many spectacular developments in individual industries. The resource-based industries such as petroleum and natural gas, non-ferrous metal mining and processing, pulp and paper products, and electric power, had very rapid expansion rates in the earlier period to 1957, and many of them have recently experienced a new round of expansion of output and investment. Electric power and gas utilities expanded their output steadily, at nearly twice the average rate of all industries, throughout the postwar period. All of these industries are highly capital-intensive, so that contemplated expansions in output have been of necessity accompanied by large fixed capital expenditures on construction, machinery and equipment. A degree of over-capacity was in fact created in the period prior to 1957, leading to a subsequent major investment downturn; by 1963, however, following increases in output, the rate of new investment had again begun to expand rapidly.

The most recent cyclical expansion of output has been characterized by developments in secondary manufacturing which are in many ways an extension and refinement of the primary resource boom described above. The resurgence of manufacturing in the past five years is in no small part due to advanced processing in petro-chemicals, synthetic textiles, a variety of iron and steel products, telecommunications equipment, aircraft, automobiles, refrigerators and appliances and many other highly processed manufactures. Durable goods manufacturing has advanced more rapidly than non-durables in the current period of

TABLE 17
GROWTH RATES AND RECENT CHANGES IN BUSINESS PRODUCT
(Per cent per year)

	1949 to 1965	1961 to 1965	1964 to 1965 ⁽¹⁾
Forestry.....	3.1	5.6	2.2
Mining.....	8.1	6.7	6.0
Manufacturing.....	4.5	7.1	7.0
Construction.....	4.8	5.9	11.2
Transportation, storage and communication.....	5.1	6.7	6.5
Electric power, gas and water utilities.....	7.8	7.7	8.3
Trade.....	4.3	5.4	6.3
Finance, insurance and real estate.....	4.8	4.7	4.1
Other commercial industries.....	3.3	5.9	3.4
TOTAL, BUSINESS PRODUCT.....	4.8	6.3	6.4
Agriculture.....	2.5	6.4	6.0
Public administration, defence and community services.....	4.2	1.0	2.2
TOTAL, DOMESTIC PRODUCT.....	4.5	5.8	6.1

⁽¹⁾ 1965 estimated on the basis of nine months' data. Agricultural and total output in 1965 estimated by Department of Finance. Data in this and the following table will be revised by DBS during coming months.

expansion. Durable goods consist of consumer items such as automobiles, appliances and furniture, together with producers' goods such as machinery, agricultural implements and structural steel, and primary products such as iron and steel, sheet metal and saw mill products, many items of which are related to fixed capital formation. Production of consumer non-durables such as food, textiles and clothing advanced at a more moderate rate both throughout the longer-run postwar period and throughout the course of the current period of rapid growth. These developments are summarized in Table 17.

Employment and Output

Over the postwar years, substantial gains in total output have been accompanied by smaller increases in employment in the economy as a whole. The difference between these two growth rates is the material evidence of growth in overall productivity. In 1965, the gain in labour productivity was at a lower rate than both the longer postwar average and the average of recent years. Output per manhour typically shows some retardation of growth as full employment is approached,⁽¹⁾ when it becomes increasingly difficult to maintain continued rapid productivity increases.

In order to obtain a good measurement of labour productivity, it is necessary to remove from the total output certain areas in which the value of the output is conventionally measured only in terms of the value of the wage bill. These areas consist mainly of public administration and defence, and community services such as schools and hospitals and domestic service. Further, the conventional measure of real output in these areas is labour input, and the volume of output is therefore represented by the volume of employment. Consequently, productivity is necessarily defined as being constant and unvarying in these areas. For analytical purposes, agricultural output is also removed, because weather and crop variations can cause substantial fluctuations in aggregate output which are not related specifically to changes in agricultural employment. After these adjustments are made, the resulting measures of employment and output refer exclusively to the business economy. The term "business product", as used in this discussion, is synonymous with "commercial non-agricultural output" as used in official publications⁽²⁾.

Business product in 1965 increased by 6.4 per cent, while the corresponding increase in employment amounted to 4.9 per cent. This implies an increment of 1.5 per cent in output per man. These figures refer to both output and employment of all groups, that is, employers, self-employed and paid workers. The latter are numerically the most important, amounting to 85 per cent of all employed persons.

Over the postwar period, as in recent years, there has been a continuing and substantial inflow to the paid worker category of the labour force, and an outflow from the self-employed, so that year-to-year changes in paid worker employment are larger than changes in total employment. Accordingly, the measurement of labour productivity is strongly affected by the measure of employment being used. At the same time, however, it is not possible to apportion the volume of output in most industries as between the various categories of paid workers,

⁽¹⁾ Economic Council of Canada, *Second Annual Review*, Ottawa, 1965, p. 35.

Hultgren, Thor, *Costs, Prices and Profits: Their Cyclical Relations*, N.B.E.R., New York, 1965, p. 155.

⁽²⁾ The official statistics are entitled "Indexes of Output per Person Employed and per Manhour in Canada, Commercial Non-agricultural Industries, 1947-63". DBS Cat. No. 14-501 and *Daily Bulletin*, Oct. 12, 1965. These official statistics now cover the period 1946-64. Estimates for the year 1965 have been made by the Department of Finance, using the "Monthly Estimates of Employees by Province and Industry", DBS Cat. No. 72-008. These estimates have been reconciled to the labour force statistics obtained from the monthly labour force survey.

employers and self-employed in those industries. As a result, the 1965 productivity improvement figure of 1.5 per cent is of necessity derived from statistics of total output and total employment, rather than paid workers only.

On a manhour basis, labour productivity in 1965 was rather higher than the man-year figure of 1.5 per cent, since average hours of work were reduced by the growing numbers of part-time workers in the increasingly active conditions of last year. This 1965 reduction in average hours of work, however, does not appear to have diverged significantly from the long term rate of decline of 0.6 per cent per year. From 1949 to 1965, the growth of productivity on a manhour basis was 3.0 per cent per year. The aggregate manhour productivity increase in 1965 was somewhat below this postwar trend value, just as the man-year productivity gain was rather below average. One reason for this has already been suggested, namely, that cyclical variations in manhour productivity typically show rapid increments in early stages of expansion and less rapid increases later on. This in turn is related to the facts that more marginal workers are hired, there are changes in the amounts of part-time and overtime work, various shortages and bottlenecks appear, and efficiency improvements are more difficult to achieve as activity expands towards peak rates of output.

TABLE 18

TRENDS IN OUTPUT, EMPLOYMENT AND OUTPUT PER MAN, MAJOR AGGREGATES
(Per cent changes per year)

	1949 to 1965	1961 to 1965	1964 to 1965 ⁽¹⁾
Manufacturing			
Output.....	4.5	7.1	7.0
Employment.....	1.7	4.2	4.9
Output per man.....	2.8	2.7	2.0
Non-manufacturing			
Output.....	4.9	5.9	6.2
Employment.....	2.6	3.5	4.9
Output per man.....	2.2	2.4	1.3
TOTAL BUSINESS PRODUCT			
Output.....	4.8	6.3	6.4
Employment.....	2.3	3.7	4.9
Output per man.....	2.4	2.5	1.5
Agriculture			
Output.....	2.5	6.4	6.0
Employment.....	-3.6	-2.9	-5.7
Output per man.....	6.5	10.1	12.5
TOTAL BUSINESS PRODUCT AND AGRICULTURE			
Output.....	4.5	6.2	6.4
Employment.....	1.3	2.8	3.6
Output per man.....	3.2	3.4	2.7

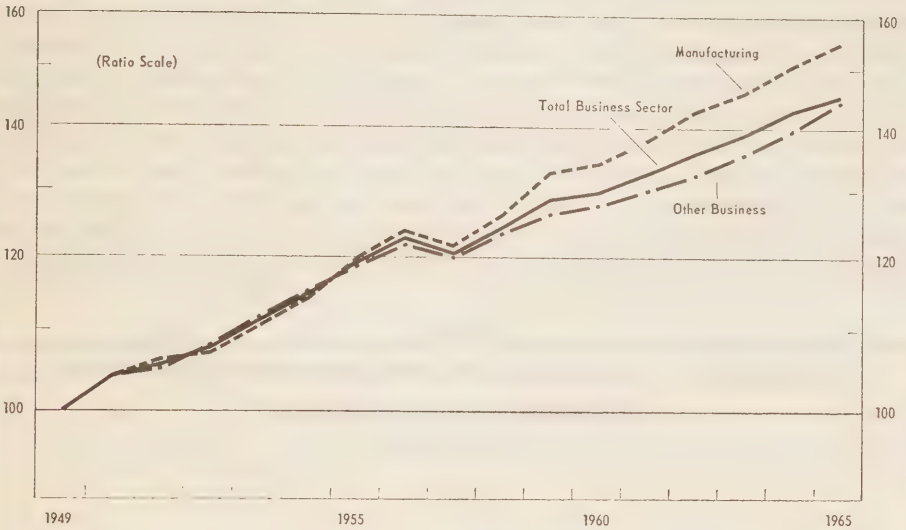
⁽¹⁾1965 estimates by Department of Finance.

Manufacturing output per person employed has had a postwar growth rate of 2.8 per cent per year, as Table 18 indicates. This 2.8 per cent rate per man-year was not maintained in 1965, when it fell to 2.0 per cent, although the manufacturing rate remained higher than the 1.5 per cent average gain in output per man in all industries. A comparison of trends in manufacturing and non-manufacturing output per person employed is shown on Chart 10.

CHART 10

INDEX OF OUTPUT PER PERSON EMPLOYED 1949 TO 1965

(1949 = 100)



Physical Capital and Output Capacity

During the past two years, the upsurge in new investment undertakings has resulted in net additions to the stock of business plant and equipment. There are also indications from the recent survey of business investment intentions that these additions will continue at a high rate during the current year.

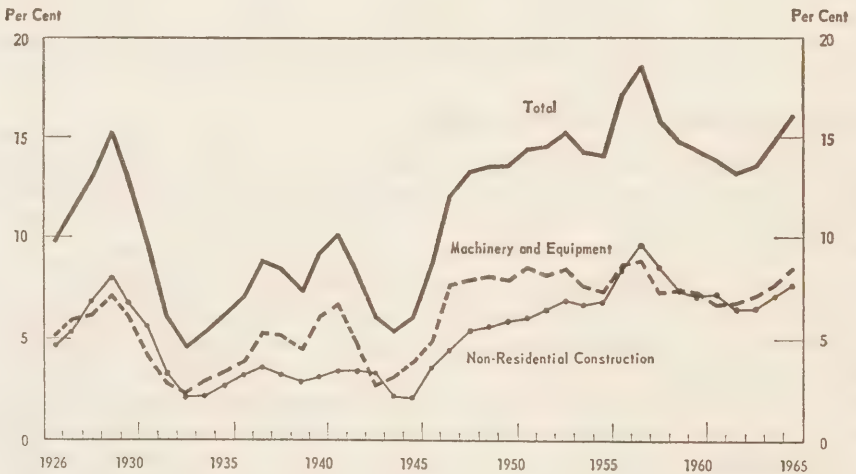
In considering the broad question of economic growth, additions to the stock of physical capital in the business sector are of fundamental importance. They represent extra capabilities of supply, they supplement the growth of the labour force, and they add to economic productivity. The relationship between the existing capital stock in the business sector and current pressure of demand in the economy at large bears upon business sector planning for future investment activity. Estimates of the capital stock published in recent years⁽¹⁾ now make it possible to consider these various relationships within a broad statistical framework.

⁽¹⁾Such estimates have been published by DBS, covering the period 1946 to 1960, and by the Economic Council of Canada, covering the period 1935 to 1963. The capital stock estimates given below have been obtained by multiplying published capital-output ratios by published output statistics. The ratios for the period 1935 to 1963 are given in Economic Council of Canada, Staff Study No. 5, *Business Investment to 1970* by D. A. White, pp 84-89. The output data are published by DBS (Cat. No. 61-505 and No. 61-005). The present discussion is confined to physical capital in the business sector. The business portion of capital and its related output excludes residential construction, agriculture and non-commercial services such as schools and hospitals.

Chart 11, which illustrates the relationship between investment and gross national product, indicates that there have been substantial variations in the proportion of business investment to GNP over the past forty years. The peaks correspond to the expansions of the late twenties and of the mid-fifties. There was very little expansion of business capital during the depression of the thirties and during World War II, but there followed a long period of rapid and sustained expansion, which was heightened by the Korean war and the resource development of the mid-fifties. This series of historical events culminated in the 1957 peak investment ratio, as described above. Thereafter, the ratio of business investment to GNP declined, to reach a postwar low in 1962 and 1963. Output recovered earlier than this, in 1961, and as the expansions in output and employment got under way, their increases were accompanied by an increase in capital investment. Thus the ratio of investment to GNP once again recovered, and at the present time it appears to be approaching the high levels of previous expansions.

CHART 11

**COMPONENTS OF BUSINESS FIXED INVESTMENT AS PERCENTAGES
OF GROSS NATIONAL PRODUCT**
1926 TO 1965



Although the annual quantities of new investment are highly variable from year to year and during major cyclical episodes, they accumulate over a long span of years into a sizeable stock which grows at a relatively stable rate. By analogy with the labour force, which has new entrants and retiring persons, the capital stock has new additions and retirements or discards of old and obsolescent

buildings and equipment. Estimates of the capital stock are obtained by accumulating new additions over long periods of time, while at the same time writing-off the discards of obsolete equipment and buildings at the ends of their useful lives⁽¹⁾.

The estimates of the capital stock made by the Dominion Bureau of Statistics and by the Economic Council of Canada suggest that the existing stock of plant and equipment is almost three times the size of the real output which it produces. Machinery and equipment is one and one-eighth times the annual output, and buildings and structures are one and five-eighths the annual output. Their total is two and three quarters times as large as the annual business product. This number is technically known as a capital-output ratio.

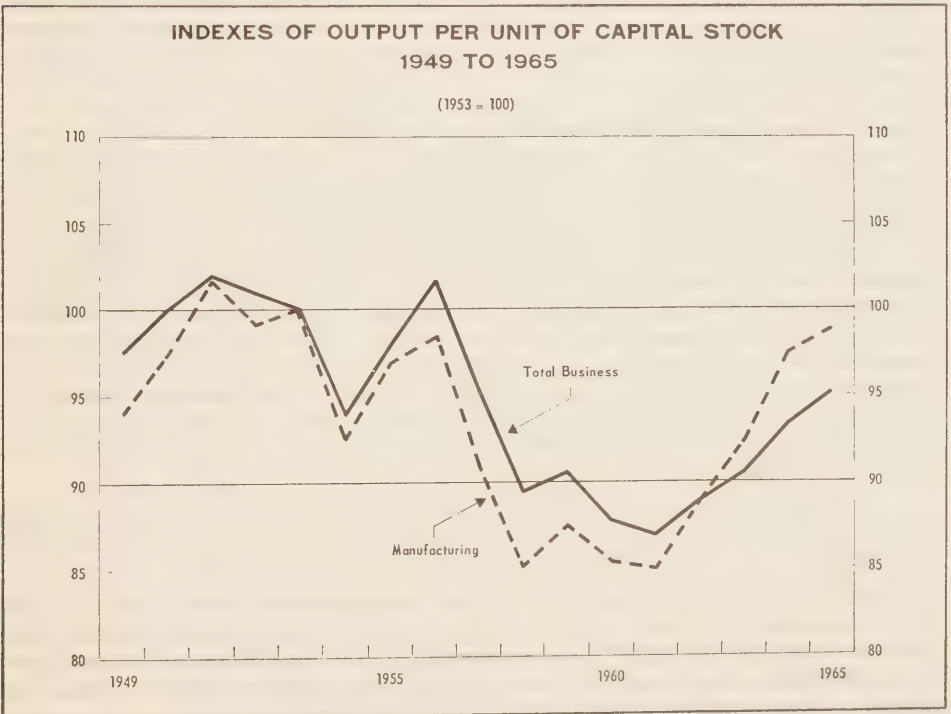
The relation of new investment to the stock may be summarized as follows. New investment in business plant and equipment in 1965 was one-fifth of business output. Output in turn was one-third of the stock. Therefore, the ratio of new investment to the stock, in 1965, was in the neighbourhood of one-fifteenth or 7 per cent. New investment, less the discards of obsolete plant and equipment, was even smaller than this, probably in the order of 5 per cent of the stock. It is apparent that it takes a great deal of new investment to change the stock appreciably, and thus to add to productive capabilities.

⁽¹⁾This is known as the perpetual inventory method of arriving at estimates of the gross stock of buildings and equipment. The available estimates are handicapped by lack of knowledge regarding asset lives and rates of obsolescence. However, it is not essential for the present discussion to have an exact measure of the stock, but rather an approximation of its magnitude relative to investment.

CHART 12

INDEXES OF OUTPUT PER UNIT OF CAPITAL STOCK 1949 TO 1965

(1953 = 100)



Capital-output ratios vary a great deal from industry to industry, ranging from low ratios in construction, forestry and trade to high ratios in electric power and gas utilities, transportation and communication. Capital-output ratios vary from less than one to over ten, across the whole spectrum of industries, reflecting their different technologies and capital requirements. Despite this great diversity, each individual industry tends to have a more or less stable capital-output ratio over time, as does the capital-output ratio for the entire economy.

During the past two years, despite rapidly increasing quantities of new investment, the capital-output ratio may very well have declined. (Chart 12 illustrates the relationship between capital stock and output over the period 1949 to 1965.) The implication is that it was simply not possible to keep the stock up to the rapidly advancing levels of output in such a short period of time. The available statistics indicate that the capital stock has increased in the order of four to five per cent per year, in the past two years, compared with business output increases of over six per cent per year. Although the volume of new business investment has increased by over 10 per cent per year, the absolute amount of it is such a small portion of the total stock (one-twentieth), that it cannot affect appreciably the latter total in one year.

It may well be that periods of rapid investment, in which the capital stock is required to catch up to rapidly increasing levels of output, or to business assessments of future levels of output, have in them ingredients of a cumulative or self-reinforcing nature. For example, the initial expansion of output may be met with existing capacity, but as soon as output gets beyond a certain point, more capacity is required. These new investment outlays generate even larger increases in income, employment and output in the total economy. The new higher levels of output in turn give rise to new and higher investment requirements. This situation is not sustainable, because an extended period of rapidly increasing investment activity eventually brings about a state of affairs in which the stock of capital is growing more rapidly than total output, and conditions of excess capacity emerge. This, in itself, would lead to a declining rate of investment. In addition, investment plans may be based on the expansion of markets as represented by the growth in demand and output. In the earlier stages of a business upswing, the rate of increase in output is necessarily faster than in later stages, since increases in output result from both underlying growth factors as well as unemployed resources being brought into use. Accordingly, investment plans based upon the rapid growth in demand in the earlier stages of an upswing may not appear justified when seen later against the relatively slower growth of demand based upon more underlying factors. When this becomes apparent, the rapid increases in investment fall off, creating instability and unemployment in the capital goods industries and in the economy generally. The remedy for this type of situation may rest primarily in prevention rather than cure, by stretching out the period of rapid investment in order to approach the probable long-run position as smoothly as possible.

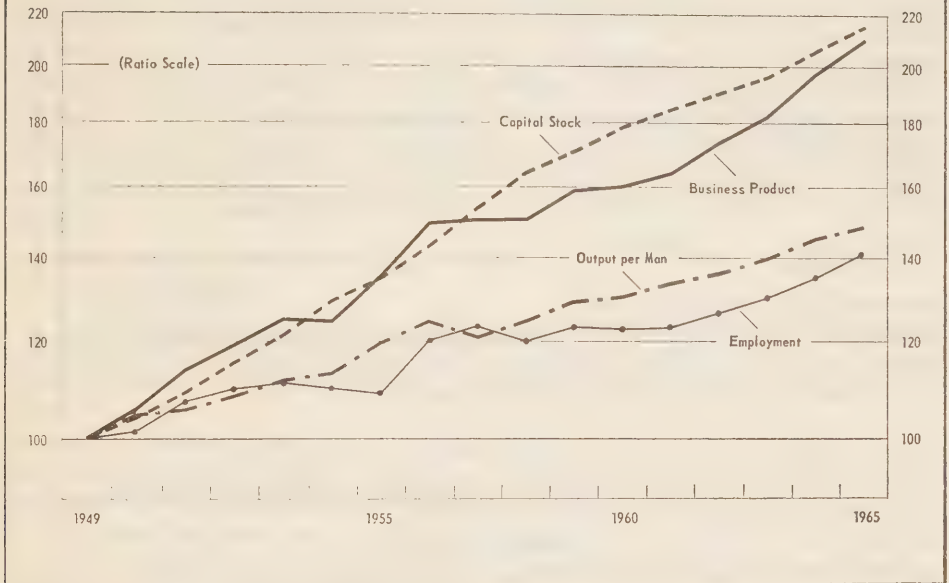
During periods of rapid expansion, when it is difficult to increase the capital stock beyond a certain limit in the short run, the economy of necessity responds by employing the available stock at very high rates of utilization.

The degree to which capital is utilized is shown to be quite flexible in the short run, as seen in Chart 12. In the long run, however, as already noted, the capital-output ratio appears to have some degree of stability, as there is time for various forms of adjustment to take place. Chart 13 illustrates some major trends in output, employment, capital stock and output per man.

CHART 13

BUSINESS PRODUCT, EMPLOYMENT AND CAPITAL STOCK 1949 TO 1965

(1949 = 100)



INCOMES, COSTS AND PRICES

Labour Income

The increase in wages, salaries and supplementary labour income in the first nine months of 1965, shown in Table 19, was greater than that achieved during any previous comparable period or in any calendar year since 1961. It has been observed elsewhere in this review that there has been a continued movement of workers from a self-employed to employee status, which contributed to this rise in labour income. The general increase in employment recorded in the discussion of manpower developments also added to the total. A rise in hourly earnings in many industries made an important contribution, and the total was also influenced by a degree of movement out of lower-income industries, such as agriculture, into employee status in higher-paid industries, such as construction.

The breakdown of labour income increases as between higher average earnings and higher employment is shown in Table 20, for selected industries. Thus, the 1965 increase in income in mining was accounted for about equally by higher employment and higher average earnings. This was true also in wholesale and retail trade. In manufacturing, the increase in average incomes was a little more significant than the gain in employment, and in construction the emphasis lay more heavily on average earnings. The increases in employment and average earnings in construction were the highest among all major industries.

TABLE 19
LABOUR INCOME AND PROFITS 1961 TO 1965

	1961	1962	1963	1964	1965 ⁽¹⁾
	(Millions of dollars)				
Wages, salaries and supplementary labour income.....	18,996	20,233	21,546	23,416	25,628
Corporation profits before taxes and before dividends paid to non-residents.....	3,427	3,750	3,996	4,580	4,967
	(Per cent change)				
Wages, salaries and supplementary labour income.....		+6.5	+6.5	+8.7	+10.6
Corporation profits before taxes and before dividends paid to non-residents.....		+9.4	+6.6	+14.6	+11.0

⁽¹⁾ Average of 3 quarters, seasonally adjusted at annual rates.

TABLE 20
LABOUR INCOME, EMPLOYED PERSONS AND AVERAGE INCOME
1963 to 1965

SELECTED INDUSTRIES

	Per cent increase in					
	Labour Income		Employed Persons		Average Income	
	1964	1965 ⁽¹⁾	1964	1965 ⁽¹⁾	1964	1965 ⁽¹⁾
	1963	1964	1963	1964	1963	1964
Mining.....	4.9	13.0	0.8	6.3	4.1	6.3
Manufacturing.....	8.6	10.2	4.8	5.6	3.6	4.4
Construction.....	11.5	23.7	5.3	10.0	5.9	12.5
Trade.....	8.6	10.5	4.0	5.0	4.4	5.2
Finance, insurance and real estate.....	9.2	8.4	5.2	5.4	3.8	2.8
Total all industries.....	8.7	10.9	3.7	5.4	4.8	5.2

⁽¹⁾ 1965 preliminary estimates by Department of Finance.

SOURCE: *Estimates of Employees by Province and Industry*, Occ. Paper, DBS Cat. 72-503; *Ibid.*, monthly, DBS Cat. 72-008; *The National Accounts*; *The Labour Force Survey*; Department of Finance estimates.

Weekly wages and salaries⁽¹⁾ in these same industries in 1965 amounted to \$111.39 in mining, \$94.03 in manufacturing, \$103.27 in construction, \$76.47 in trade, and \$88.23 in finance, insurance and real estate. Thus, the industry in which employment expanded most rapidly, namely construction, was one in which average weekly wages were relatively high. In the case of mining, employment also rose more rapidly than the average, and here also average weekly

⁽¹⁾ SOURCE: DBS, *Employment and Payrolls*, Cat. 72-002. The data employed here refer to establishments employing 15 persons or more, and in certain respects are not strictly comparable to National Accounts and other data.

wages and salaries were high. In the finance, insurance and real estate group, where weekly wages and salaries are relatively lower, the increase in employment was about average.

The movement of workers into construction employment from other industries was an important element in the increase in total labour income. Some of the additional workers in construction were drawn from the mining industry, although despite this the mining sector increased employment in 1965. Most of these additional construction workers, however, came from industries in which average weekly wages and salaries were lower than in construction. Some skilled workers were drawn from the manufacturing and trade sectors, but a large number came in from agriculture. Many of those who came from agriculture had been self-employed, and as wage earners in industry added to the increase in labour income.

Corporation Profits

The changes in corporation profits before taxes and before dividends paid to non-residents, which were presented in summary form in the introductory section of this review, are set out in greater detail in Table 21, and shown in Chart 14.

This table indicates that the rate of growth in profits was less in 1965 than 1964 in a large number of industries. (These comparisons are derived from Department of Finance preliminary estimates). Actual declines in profits occurred in the paper industries and textiles, knitting mills and clothing. The rate of growth in profits was higher than in 1964 in the utilities group, the service industries, food and beverages, and retail trade.

TABLE 21
PROFITS BY INDUSTRY
1963 to 1965

	Per cent increase		
	1965 ⁽¹⁾	1964	1965 ^{(1) (2)}
	1964	1963	1961
Mining, Quarrying and Oil Wells.....	12.0	32.9	14.7
Total, Manufacturing Industries.....	7.6	8.6	10.2
Food and Beverages.....	10.9	10.3	7.0
Paper.....	-16.3	10.3	-0.3
Textiles.....	-1.3	-5.1	2.5
Metal Industries.....	18.7	1.3	14.4
Electrical Products.....	12.9	27.8	29.0
Petroleum and Coal Products.....	7.8	14.3	6.1
Chemicals.....	7.5	13.3	16.3
Transportation, Storage and Communication.....	23.4	25.7	15.8
Electric Power and Gas Utilities.....	24.3	-1.3	1.4
Wholesale Trade.....	11.7	18.2	13.1
Retail Trade.....	16.5	6.1	9.2
Finance, Insurance, Real Estate.....	4.6	19.2	5.3
Service Industries.....	35.0	19.0	15.8
Total.....	11.0	14.5	10.3

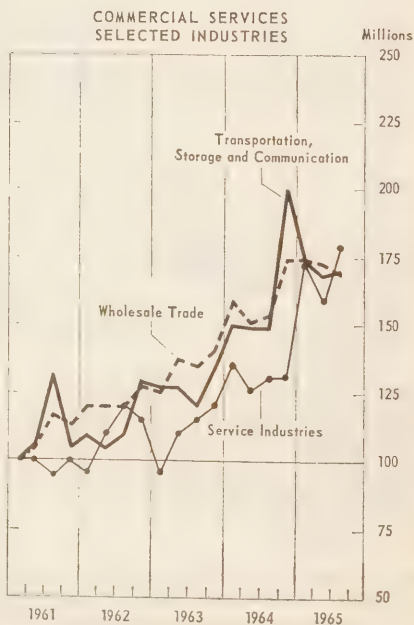
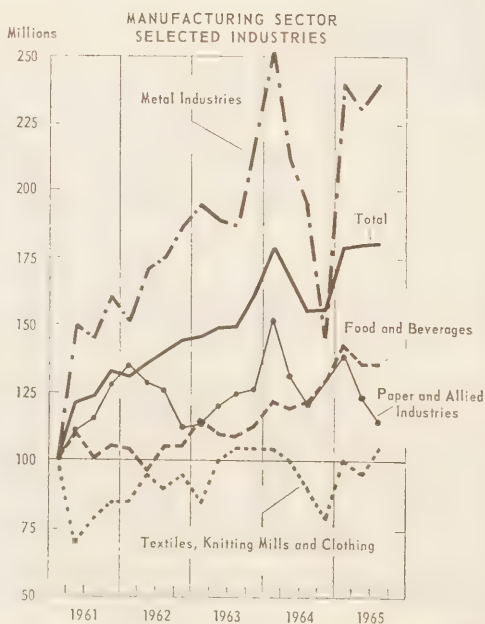
(1) 1965 preliminary estimates by Department of Finance.

(2) Expressed as annual compound rate of increase.

CORPORATION PROFITS

1961 — 1965

Quarterly Data Seasonally Adjusted



Comparing both 1964 and 1965 to the trends established over the 1961 to 1965 period, it may be seen that the 1964 annual gain was greater than the trend rate in the majority of industries. In 1965, partly because of the sharp 1964 gain, the annual increase tended to be rather less than the trend, although there were some marked exceptions. At the same time, wage costs in many industries rose more rapidly than productivity, and the margin of profits was lowered in those industries subject to a greater degree of competitive price pressure at home or abroad. By contrast, some industries (for example, the foods and beverages processing industries) managed to sustain their rate of improvement in profits. In other industries, the conflict between rising costs on the one hand and the degree of freedom to adjust selling prices on the other had varying results. In retail trade, the buoyancy of consumer demand for all kinds of goods permitted upward price adjustments sufficient to offset cost increases. A similar situation was observed in the construction sector, where tender prices were reported as substantially higher in many parts of the country.

Production Costs

In the business sector as a whole, excluding agriculture and the non-commercial services, profits per unit of output are estimated to have risen by about 4.0 per cent in 1965. This was below the increase recorded in 1964, when profits per unit of output rose by 6.2 per cent from the 1963 rate. In manufacturing, corporation profits per unit of output appear to have continued their declining trend, as Table 22 indicates. This table also shows a sharp increase, amounting to over 2 per cent for the year as a whole, in labour costs per unit of output in the manufacturing sector, while labour costs per unit of output in the entire non-agricultural economy, including the government and non-commercial services sector, rose by over 4 per cent.

TABLE 22
PER CENT CHANGE IN UNIT LABOUR COSTS AND PROFITS

	1962 1961	1963 1962	1964 1963	1965 ⁽¹⁾ 1964
Labour cost per unit of non-farm output.....	1.1	1.7	1.6	4.2
Corporation profits per unit of business sector output	3.6	1.5	6.2	4.0
Wage and salary costs per unit of manufacturing output.....	-0.3	0.6	0.6	2.3
Corporation profits per unit of manufacturing output.	6.9	4.0	0.4	-0.3

⁽¹⁾ 1965 preliminary estimates by Department of Finance.

The relatively favourable performance of the manufacturing sector compared to the total economy is due in part to the behaviour of unit labour costs in the construction and service industries in 1965. The lesser opportunities for productivity improvement in the service industries in conditions of generally rising hourly earnings raised aggregate unit wage costs accordingly, and unit labour costs were higher also in construction. However, the role of the manufacturing industries in Canada's international competitive position is important. This is true, whether it refers to industries competing in export markets or to industries supplying the domestic market which face import competition. In the United States, which is both Canada's largest market and her greatest competitor for most internationally-traded goods, labour costs per unit of output in manufacturing have been declining or stable.

WAGE COSTS PER UNIT OF OUTPUT 1949 TO 1965

(1949 = 100)

BY MAJOR INDUSTRIAL GROUPINGS

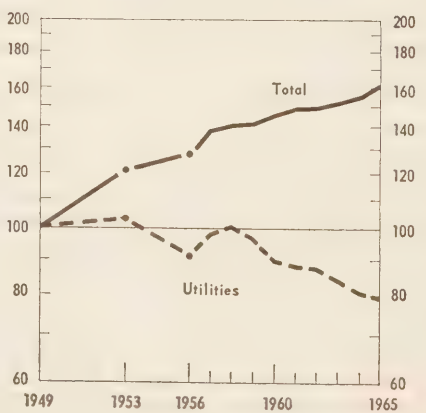
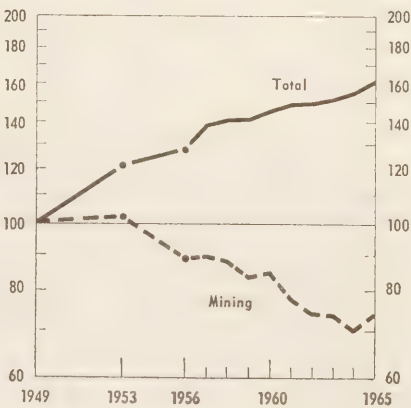
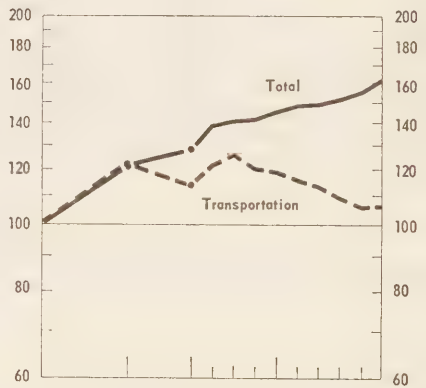
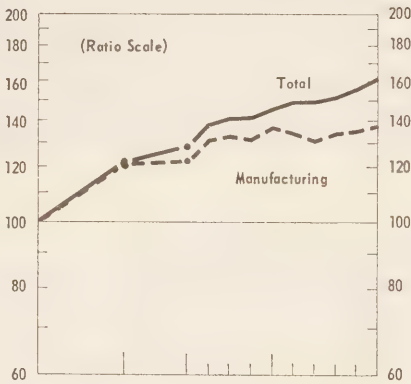
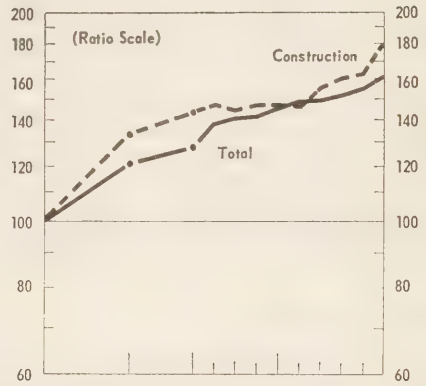
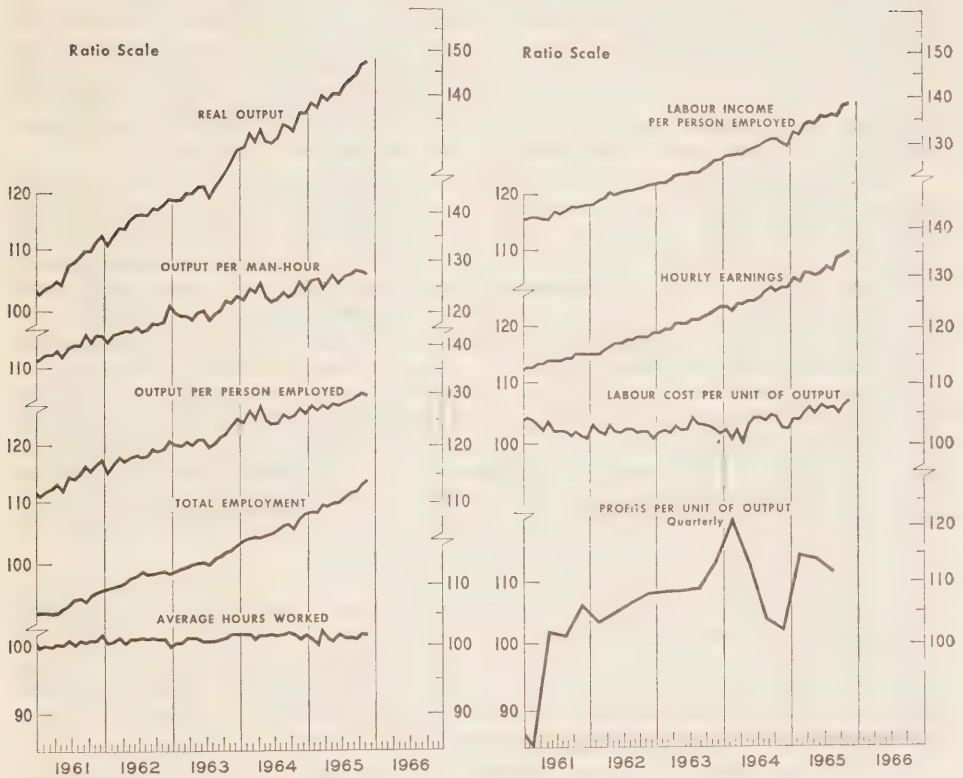


CHART 16
PRODUCTIVITY, LABOUR COSTS AND PROFITS
IN MANUFACTURING
 Monthly - Index 1957=100



Over the past five years, Canada's competitive position improved in relation to that of other countries in all of the world's major industrial markets. This was caused by a combination of a decline in the value of the Canadian dollar and relatively stable prices in Canada, alongside sharp increases in prices and costs which took place in many other countries during this period.

Price Trends

The productivity and cost developments discussed in these pages and the various economic forces underlying these changes provide a useful framework within which to view price changes. However, as will be pointed out, other factors are also important in explaining changes in prices.

In broad general terms, it has been noted that the value of the Gross National Product in 1965 rose by an estimated 9.3 per cent, its volume by 6.4 per cent, and hence its price by 2.9 per cent. (These estimates are preliminary only for the year as a whole.) On the basis of the analysis presented in these pages, it is possible to show a similar analysis of a number of individual industrial sectors on the same basis.

The value of the total product on an industry basis is the sum of the payments to the factors of production (e.g., wages, rent, interest and profits) directly employed by each industry. The volume of output represents the real amount of production on an industry basis and is analogous to constant dollar GNP⁽¹⁾. The ratio of the value over the volume of output by industry is an indicator of "price" or "cost" changes by industry. Such "prices" are not real in the sense that they are quoted on commodity exchanges. However, they have a real economic sense in that they reflect the relationship between the dollar costs of adding value to goods and services through the use of productive factors and the efficiency with which these factors of production are employed.

Any individual industry has selling prices which are influenced by the costs of production in that industry as well as by the costs of materials and services purchased from other industries. Since we are concerned with the "prices" of value added in particular industries, the prices of purchases from other industries must be removed⁽²⁾. The difference between gross sales and gross purchases, called value added, consists of returns to labour and capital. In turn, the wage bill can be subdivided into the number of employees and their average earnings, (or manhours and wage rates). Similarly, the non-wage incomes, such as profits and unincorporated net income, can be subdivided into the capital stock and the rate of return on that stock. The wage rate may be seen as the "price" of labour and the rate of return as the "price" of capital. Similarly, the volume of production may be seen as the quantity of labour and capital input times their productivity. Accordingly, the total "price" charged by each industry can be seen to consist of labour and capital costs, or simply unit costs of the factors of production. Obviously, productivity gains reduce such costs.

Table 23 indicates that annual average increases in the value, volume and "price" components of business product over the whole postwar period amounted to 7.4 per cent, 4.8 per cent and 2.5 per cent respectively. In the business expansion from 1961 to date, there was much less price pressure than previously, since business product prices increased by only $1\frac{1}{2}$ per cent per year. There was, however, a renewal of price increases in 1965 of the same order of magnitude as those of the postwar average, amounting to about $2\frac{1}{2}$ per cent in that year.

Earlier comments on the components of the National Accounts deflators point out that some of these components, by convention, do not allow for changes in productivity, and hence do not accurately reflect cost developments in the economy as a whole. The removal of these elements of price from GNP results in a more accurate portrayal of the effects of demand and supply pressures on real resources in the business area. As already observed, the price increase in business product was about $2\frac{1}{2}$ per cent and the volume increase was about $6\frac{1}{2}$ per cent in 1965.

An examination of the industrial breakdown of business product over the whole postwar period (Column 1 in Table 23) indicates lower than average price increases for mining, manufacturing (particularly durables), transportation and communication and electric power, gas and water utilities. These are high capital intensity industries. They have also had the highest productivity gains in the postwar period. Wage rate increases granted in these industries were apparently

⁽¹⁾See "Indexes of Real Domestic Product by Industry of Origin", DBS Catalogue No. 61-505.

⁽²⁾In effect, the "price" of value added in an industry may be represented as follows:

$$\begin{array}{rcl}
 \text{"Price" of value added by industry} & = & \frac{\text{Current value of sales}}{\text{Constant value of sales}} - \frac{\text{Current value of purchases}}{\text{Constant value of purchases}} \\
 & = & \text{selling price} \quad \quad \quad - \text{buying price}
 \end{array}$$

TABLE 23

VALUE, VOLUME AND PRICE COMPONENTS OF GDP BY INDUSTRY⁽¹⁾
(Per cent changes per year)

	1949 to 1965	1961 to 1965	1964 to 1965
Forestry			
Value.....	3.6	5.8	2.4
Volume.....	3.1	5.6	2.2
Price.....	0.5	0.2	0.2
Mining			
Value.....	8.1	7.1	11.2
Volume.....	8.1	6.7	6.0
Price.....	—	0.4	4.9
Manufacturing			
Value.....	6.5	8.5	8.7
Volume.....	4.5	7.1	7.0
Price.....	1.9	1.3	1.6
Construction			
Value.....	7.9	10.0	18.8
Volume.....	4.8	5.9	11.2
Price.....	2.9	3.9	6.9
Transportation, storage and communication			
Value.....	7.3	6.5	7.3
Volume.....	5.1	6.7	6.5
Price.....	2.0	-0.2	0.7
Electric power, gas and water utilities			
Value.....	9.6	6.6	9.9
Volume.....	7.8	7.7	8.3
Price.....	1.7	-1.0	1.5
Trade			
Value.....	6.7	7.3	9.5
Volume.....	4.3	5.4	6.3
Price.....	2.4	1.7	3.0
Finance, insurance and real estate			
Value.....	9.1	7.1	7.3
Volume.....	4.8	4.7	4.1
Price.....	4.1	2.2	3.1
Other commercial industries ⁽²⁾			
Value.....	9.0	8.7	7.8
Volume.....	3.3	5.9	3.4
Price.....	5.5	2.5	4.2
TOTAL, BUSINESS PRODUCT			
Value.....	7.4	7.7	8.8
Volume.....	4.8	6.3	6.4
Price.....	2.5	1.4	2.2
Agriculture			
Value.....	2.4	10.1	9.0
Volume.....	2.5	6.4	6.0
Price.....	—	3.5	2.8
Public admin., defence and community services ⁽³⁾			
Value.....	—	—	—
Volume.....	4.2	1.0	2.2
Price.....	—	—	—
TOTAL DOMESTIC PRODUCT			
Value.....	7.2	7.8	8.8
Volume.....	4.5	5.8	6.1
Price.....	2.5	1.9	2.6

⁽¹⁾Gross Domestic Product is equal to GNP plus net outpayments of interest and dividends minus indirect taxes less subsidies.

⁽²⁾Includes recreation, personal and business services.

⁽³⁾Includes schools, hospitals and health services, religious and other community services.

SOURCE: DBS *National Accounts*, annual issues, Table 21 and DBS *Indexes of Real Domestic Product by Industry of Origin* (Cat. No. 61-505 and 61-005). Value Estimate for 1965 made by Department of Finance.

absorbed by rising productivity, with consequent reduction of the upward pressure on prices. These long term trends toward greater productivity and lower-than-average price increases have by and large continued through the current expansion. Mining recorded substantial increases in price in 1965; this was probably due to conditions in external markets for mineral products.

In contrast to the relatively low price trend in terms of value added in the above group of industries, the construction, trade, and broad service groups had greater than average price increases throughout the postwar period, and again in 1965.

The construction industry, according to these measures, increased its value of output by 8 per cent per year over the whole period, representing a volume increase of 5 per cent and a price increase of 3 per cent per year. In the current expansion, from 1961 to date, the available measures show that construction value, volume and price increased by 10 per cent, 6 per cent and 4 per cent respectively. These increases accelerated in 1965, as shown in the last column of Table 23. It should, however, be noted that there are some serious difficulties of price measurement in this industry.

Price increases in the value added by wholesale and retail trade over the whole postwar period amounted to 2.4 per cent per year. They amounted to 1.7 per cent in the period 1961 to 1965, but rose to 3.0 per cent in 1965. The volume of output in trade was similar to that of total business product.

In finance, insurance, real estate and other commercial services, increases in the price of value added were above average throughout the postwar period, but statistical difficulties prohibit any real inference to be drawn from this type of measurement. The financial and commercial industries round out the industrial coverage of business product, in which they have 25 per cent of the total weight. Any inaccuracy in the measurement of the price of value added in these industries would have a corresponding effect on the price component of total business product.

Summarizing the evidence, it may be said that the goods-producing industries, plus transportation and electric power, gas and water utilities, have generally contributed much less to overall cost increase in the postwar period and in the most recent expansion, than have the distributive trades and financial and commercial services. There are difficulties of price measurement in the latter areas, and in the construction industry. Nevertheless, it is in these areas that the increases in 1965 in the price of value added appear to be most prominent.

Turning to more commonly used price indexes (for example, the consumer price index and the general wholesale price index), it is worthwhile noting that each index is designed for specific purposes, and its use as a general, overall indicator of economic trends may be subject to limitations. Thus, the Consumer Price Index cannot be regarded as a sensitive indicator of cyclical cost developments, although consumer prices reflect, sooner or later, the cost developments discussed in these pages. The Consumer Price Index is primarily intended to serve as a measure of changes in the prices of consumer goods and services, including those purchased from abroad. In conjunction with data on earnings, it can be used to derive an approximation to real wages. In this connection, the following table is of interest, since it draws attention to the general importance of productivity improvement in raising real wages over time.

REAL EARNINGS AND PRODUCTIVITY, BUSINESS SECTOR

	Per cent change over preceding year			
	Average Compensation Paid Per Hour ⁽¹⁾	Consumer Price Index	"Real" Hourly Earnings	Manhour Productivity
1961.....	6.1	0.9	5.2	4.2
1962.....	2.5	1.2	1.3	1.6
1963.....	4.4	1.8	2.6	3.0
1964.....	3.6	1.8	1.8	2.6
1965.....	5.8	2.4	3.4	1.8
5-year average.....	4.5	1.6	2.9	2.7

⁽¹⁾Total compensation paid divided by total hours worked. Includes effects of changes in rates, overtime and inter-industry and occupational shifts.

Details of the changes in the Consumer Price Index are set out in Table 8. In 1965, the effect of severe drought, not only in some parts of Canada but throughout most of the eastern United States, was sufficient to raise the price of some staple food products, particularly potatoes, very sharply. While improved conditions during the summer permitted these prices to decline, new pressure arose as a general shortage of meat supplies developed in the United States. Strong prices in cattle and meat markets therefore emerged in the United States, and this in turn forced Canadian prices to rise as Canadian producers sought their most advantageous returns.

Rising standards of living also have had their impact on the Consumer Price Index. Larger numbers of cars on the roads, and the growing preference for bigger and more expensive models, have resulted not only in more insurance claims, but also in larger claims. Accordingly, there have been increases in car insurance rates which caused the index to rise in 1965. Higher standards of public service have also been associated with higher property taxes and higher sales taxes in many areas, as modern living calls for continuing improvement in highways, schools, hospital care and social services generally. While much of this represents higher standards of consumption, a great deal of it is reflected in the record in the form of higher prices to consumers.

A second common measure of price changes in the Canadian economy (and one which excludes changes in the cost of imports) is the price index ("deflator") used in constructing the National Accounts constant-dollar tables. This measure, which rose by about 3 per cent in 1965, reflects not only the changes in prices but also the changes in the pattern of purchases. The greater relative importance of construction in the 1965 expenditure pattern therefore affected the movement of the total index fairly strongly, insofar as the index for construction outlays rose rather more than the index for some other forms of expenditure. Movements in the GNE "deflators" are set out in detail in Table 24.

TABLE 24
IMPLICIT PRICE INDEXES
SEASONALLY ADJUSTED GROSS NATIONAL EXPENDITURE AND COMPONENTS
(1957=100)

	Personal Expend- iture on Consumer Goods and Services	Non- Durable Goods	Durable Goods	Services	Govern- ment Expend- iture on Goods and Services	Business Gross Fixed Capital Formation	New Residential Construc- tion	New Non- Residential Construc- tion	New Machinery and Equipment	Exports of Goods and Services	Imports of Goods and Services	Gross National Expenditure
1962 1Q...	106.7	104.4	100.8	111.4	112.2	110.0	111.6	109.2	110.0	105.7	108.2	107.6
2Q...	107.1	105.0	100.7	112.2	112.9	110.9	112.5	110.0	110.9	106.5	109.4	108.1
3Q...	107.4	105.2	100.9	112.6	114.0	111.4	113.3	109.8	111.7	107.1	109.7	108.7
4Q...	107.9	106.0	100.9	112.8	114.8	112.0	114.1	110.9	112.0	106.9	110.1	109.2
Year	107.3	105.2	100.8	112.3	113.5	111.1	112.9	110.0	111.2	106.6	109.3	108.4
1963 1Q...	108.2	106.2	101.3	113.2	116.5	112.7	114.7	111.9	112.5	107.3	111.1	109.6
2Q...	108.6	106.6	101.1	114.0	117.6	113.4	115.8	112.2	113.2	107.4	111.6	110.1
3Q...	109.2	107.3	101.5	114.2	118.4	114.5	117.0	113.2	114.3	107.7	113.3	110.4
4Q...	109.4	107.8	100.9	114.5	119.7	115.3	119.6	114.0	114.3	108.9	113.6	111.1
Year	108.9	107.0	101.2	114.0	118.1	114.0	116.8	112.9	113.6	107.8	112.5	110.3
1964 1Q...	109.9	108.3	100.7	115.4	119.9	116.4	121.2	114.5	115.4	109.5	114.4	111.6
2Q...	110.4	108.7	100.5	116.0	120.5	118.1	122.9	115.5	115.0	109.9	115.0	112.3
3Q...	110.7	109.2	99.8	116.9	122.1	118.5	124.5	116.3	117.6	111.2	114.3	113.3
4Q...	111.0	109.1	99.6	117.5	122.4	119.5	125.8	117.7	117.9	110.6	113.7	113.8
Year	110.5	108.8	100.1	116.5	121.2	118.1	123.5	116.0	117.2	110.3	114.4	112.8
1965 1Q...	111.4	109.3	99.9	118.4	123.7	121.9	127.4	120.1	120.8	110.1	114.4	114.4
2Q...	112.3	110.6	100.2	119.1	125.2	123.5	129.5	122.7	121.3	110.8	114.2	115.7
3Q...	112.7	110.9	99.9	120.2	126.1	123.9	129.8	123.7	121.4	112.2	114.5	116.6
4Q...												

SOURCE: DBS

The Gross National Expenditure price index reflects a number of other special factors apart from the change in composition of expenditure. In particular, it includes the influence of indirect taxes; this was again a factor in 1965, as the prices of construction materials and machinery went up following the removal of the final part of their exemption from sales tax on January 1. It also is affected by the growing emphasis on government and community services in the consumption pattern, as these are activities in which wage increases are reflected immediately in the price measurement. As noted earlier, this reflects the convention of not measuring productivity changes for these services. Higher export prices have also been a feature of the GNE deflators in 1965, as some world commodity prices have been higher.

The Industry Selling Price Indexes, referred to briefly in the introductory section of this review, are a helpful indicator of cyclical and cost developments. These indexes report price changes excluding tax changes, and are also designed to exclude such factors as insurance or freight costs incurred in transporting merchandise from the factory to the customer. They cover a large part of the manufacturing sector, but are not comprehensive.

A selection of industry selling price indexes was shown in Table 7 and their recent movement was illustrated in Chart 3. The effect both of special factors and of some advancing cost pressures can be seen in this table, with the meat shortage having a particularly powerful impact on the meat packing industry. The cyclical trend in steel ingot prices in this table is shown by the downward movement into 1963, and the reversal in 1964 and 1965. Construction demand affected the 1965 movement of cement prices and sash, door and planing mills, while the downward movement of motor vehicle prices is also apparent.

It may be observed that many of the well-known wholesale price indexes are of value as an indication of costs of materials to users in certain sectors. In particular, the residential and non-residential building materials indexes are of help in revealing the trend in prices builders must pay for their materials. In 1965, the residential materials index (1949=100) rose from 149.5 in January to 151.3 in November, and the non-residential index rose from 145.5 to 148.5. These changes provide additional evidence that the rise in construction costs in 1965 was associated more with higher labour costs (including sub-trades costs) than with higher materials prices.

DEMAND

Public and Private Investment

The current investment expansion in both public and private sectors accounted for one-third of the total increase in demand strengths in the past year. Total public and private investment expenditures rose by about \$1,850 million, while total demand from all other sectors combined—consumers, governments with respect to their current outlays, exports and change in inventories—amounted to some \$3,800 million. A considerable part of the investment expansion, particularly that which took the form of machinery and equipment, was met by importing such items from abroad. However, there remained a substantial portion of the total investment programme which competed for domestic supplies of labour and materials, and which had important but less direct effects (multiplier effects) in adding to incomes and expenditures in the other parts of the Canadian economy.

This was the second successive year of rapid expansion in total public and private investment. The rates of increase amounted to over 15 per cent per year in both 1964 and 1965, exceeding the increases of about 9 per cent per year recorded in gross national expenditure in each of those two years. Thus, the share of investment in total expenditure increased in both years, to reach a level, in current prices, not far short of the two previous peaks, in 1957 and 1929. In contrast to the 1955-57 investment expansion, which was concentrated on electric power, oil and gas and other primary resource industries, the present expansion is notable for relatively greater emphasis on manufacturing, commercial and institutional construction (schools and hospitals) and service industries in general. Within manufacturing, resource-related industries such as paper products and primary metals continued to account for a large part of the new investments, but secondary products such as textiles, chemicals and transportation equipment played a much more prominent role. New manufacturing plant and equipment expenditures increased over 20 per cent in both years, and amounted to nearly one-fifth of total public and private capital expenditure. By 1965 they exceeded their 1957 percentage share in total investment.

Trade, finance and commercial services increased their investment outlays by approximately 20 per cent in both years, and were an important contributor to the overall investment increase in 1965. This present expansion thus appears to be related to continued urbanization and the development of secondary processing and services industries, to a much greater extent than previously. Further industrial detail is given in Table 25.

TABLE 25
PUBLIC AND PRIVATE CAPITAL EXPENDITURE

	1961	1962	1963	1964	1965	1966
	(Millions of dollars)					
Agriculture and fishing.....	576	663	762	836	928	975
Forestry.....	50	54	60	88	102	102
Mining, quarrying and oil wells.....	449	480	521	632	687	936
Manufacturing.....	1,085	1,269	1,358	1,831	2,238	2,696
Electric power, gas and water works.....	706	720	763	888	1,129	1,282
Transportation, storage and communications.....	992	881	1,008	1,171	1,289	1,381
Construction industry.....	136	109	135	197	235	248
Trade, finance and commercial services.....	847	860	918	1,042	1,218	1,464
Institutions.....	617	834	873	771	1,009	1,261
Housing.....	1,467	1,587	1,713	2,028	2,133	2,216
Government departments.....	1,247	1,258	1,282	1,460	1,830	1,985
Total Capital Expenditure.....	8,172	8,715	9,393	10,944	12,798	14,546
Total Capital Expenditure as a percentage of Gross National Expenditure.....	21.8	21.5	21.8	23.3	24.9	
Index of total Capital Expenditure in constant dollars (1957=100).....	89.5	93.1	97.0	108.7	121.0	

SOURCE: DBS and Department of Trade and Commerce.

Housing and social capital outlays in 1965 were also large, and were of course associated in some degree with this business investment activity. However, social capital expenditures are also directly related to the population developments discussed in the Economic Review of 1964. The construction of primary schools, then high schools, now universities, has accompanied the postwar population surge throughout its various stages. In addition, there have been rapid

urban expansions involving all of the needs of local supply, such as water, electricity, sanitation, road and highway construction and the building and equipping of hospitals and many other municipal facilities.

TABLE 26
RECONCILIATION WITH NATIONAL ACCOUNTS INVESTMENT

	1961	1962	1963	1964	1965	1966
	(Millions of dollars)					
Private and Public Capital Expenditure, Table 25...	8,172	8,715	9,393	10,944	12,798	14,546
Deduct:						
New residential construction by governments...	9	10	6	7	9	8
New non-residential construction by governments	1,368	1,562	1,609	1,618	2,113	2,379
New machinery and equipment outlays by governments.....	160	183	187	216	252	294
Business Gross Fixed Capital Formation in Housing, Plant and Equipment—National Accounts definition.....	6,635	6,960	7,591	9,103	10,424	11,865

These developments are reflected in the following table, which shows that business investment accounted for an increase of \$1,100 million, social capital an increase of \$650 million, and housing an increase of \$100 million, in the year 1965. The classification below is according to that used in Public and Private Investment, rather than that of the National Accounts.

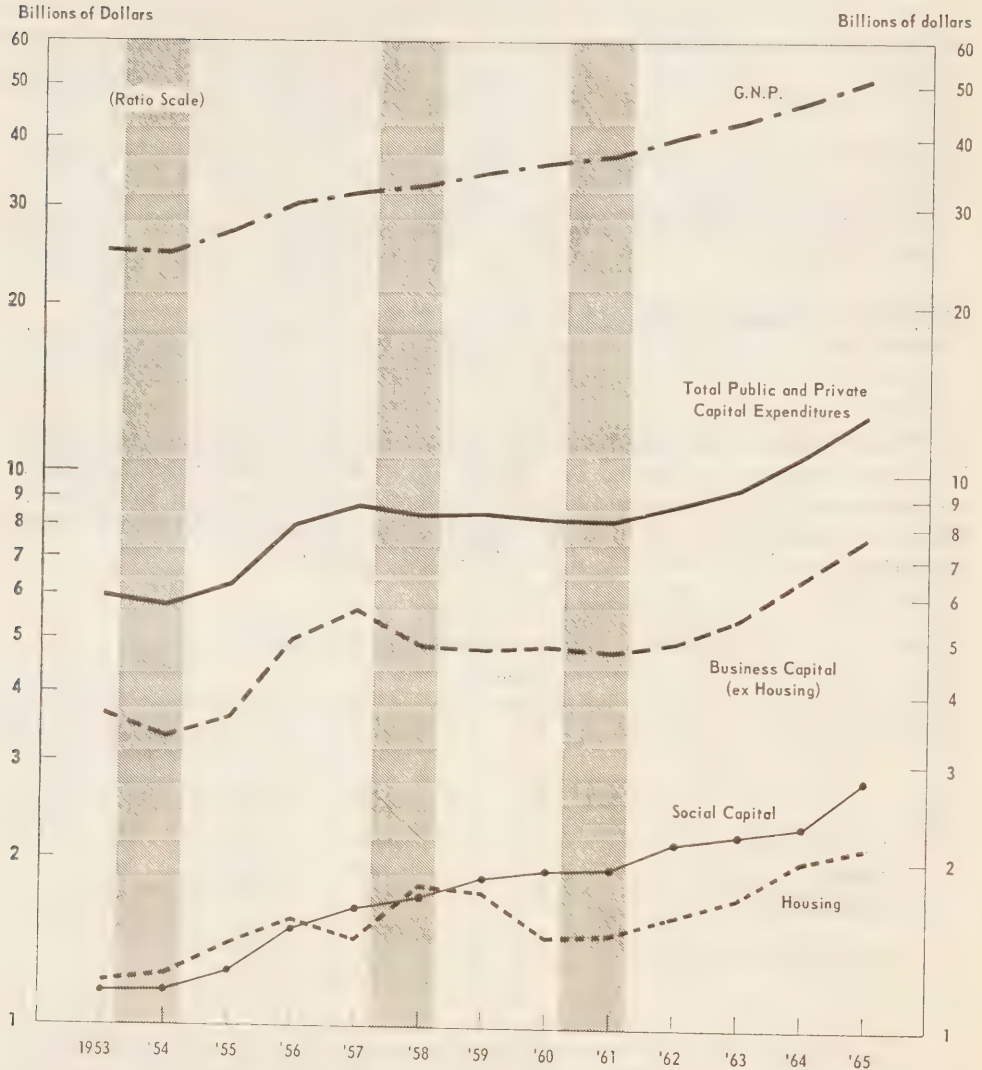
MAIN COMPONENTS OF INVESTMENT DEMAND
(\$ million)

	1964	1965	Increase from 1964 to 1965
Business capital.....	6,617	7,719	1,102
Housing.....	2,028	2,133	105
Social capital.....	2,299	2,946	647
Total Public and Private.....	10,944	12,798	1,854

These main components of public and private investment are compared with Gross National Product in Chart 17. Here it can be seen that business capital has traditionally fluctuated much more than Gross National Product, while social capital outlays have followed a steadier course, except in the past year. Housing expenditures have shown a variety of movements. However, the chart suggests that, in the past, they have frequently changed direction in advance of general business conditions, turning downward a year in advance of the general business peaks and moving up from their cyclically lowest points well

CHART 17

**PUBLIC AND PRIVATE CAPITAL EXPENDITURES
AND GROSS NATIONAL PRODUCT
1953 TO 1965**



before the general business troughs are reached. Over the past ten years, expenditures on social capital appear to have been advancing much more rapidly than housing outlays, and may also have exceeded the rate of growth of business capital, although the large fluctuations make it difficult to pick terminal years or to fit trends for such a comparison.

TABLE 27

INVESTMENT AS A PERCENTAGE OF GROSS NATIONAL EXPENDITURE
1948 to 1965

	Total Private and Public Investment	Housing and Social Capital ⁽¹⁾	Business Investment Private and Public ⁽²⁾
1948.....	20.4	7.8	12.6
1949.....	21.7	8.7	13.0
1950.....	21.9	8.9	13.0
1951.....	22.4	8.6	13.8
1952.....	22.9	9.0	13.9
1953.....	23.9	9.4	14.5
1954.....	23.0	9.6	13.4
1955.....	23.0	9.8	13.2
1956.....	26.3	9.9	16.4
1957.....	27.3	9.6	17.7
1958.....	25.4	10.6	14.8
1959.....	24.1	10.4	13.7
1960.....	22.8	9.3	13.4
1961.....	21.8	9.1	12.7
1962.....	21.5	9.2	12.3
1963.....	21.8	9.1	12.7
1964.....	23.3	9.2	14.1
1965.....	24.9	9.9	15.0

⁽¹⁾Includes housing, outlays by government departments, institutions and municipal waterworks.

⁽²⁾Includes government business enterprises.

Government Expenditures

Purchases of goods and services by all levels of government, estimated at \$9.5 billion for 1965, were over 10 per cent higher than they were in 1964. They represented 18.6 per cent of gross national expenditures, a slightly higher proportion than that recorded a year earlier. Provincial-municipal expenditures, which account for almost two-thirds of total government outlays on goods and services, rose by 13 per cent, while the increase at the federal level amounted to 7 per cent. As a result, the provincial-municipal share of total government sector purchases of goods and services increased again, continuing the rising trend in this ratio which has been evident since World War II, except for the brief interruption caused by the Korean war. The smaller increase in the federal total results in part from the declining relative importance of defence expenditures within the total.

Within the government sector, it is of interest to note where the changes took place. Of the \$3.3 billion spent by the federal government on goods and services in 1965, slightly less than one-half was accounted for by defence, which showed little change from the previous year. The non-defence portion is estimated to have risen by some 15 per cent, or about \$240 million. Approximately one half of this was attributed to increased investment outlays for buildings for public use, for the development and construction of harbours, wharves and dams, and for the acquisition of equipment such as icebreakers. Another significant increase, amounting to almost a quarter of the total non-defence advance in expenditures at the federal level, resulted from increased labour costs, including those retroactive payments to a large number of government employees which were paid in September. Much of the balance can be explained by lower net liquidation of inventories held by government commodity agencies, and by increased payments for international aid.

The provincial and municipal governments, taken together, increased their demand for goods and services by over \$700 million, to a level of \$6.3 billion in 1965. One-half of this 1965 gain occurred at the provincial level, although in the aggregate provinces account for a little more than a third of overall provincial-municipal spending on goods and services. A substantial part of the increase in spending by departments of provincial governments was for construction, primarily of roads, bridges and highways. The balance of the provincial increase can be attributed to higher wage and salary payments, which rose by about 10 per cent over the year.

Labour costs account also for the major part of the increase at the municipal level. This is especially the case in the field of education, where salaries and wages have shown annual increments of about 10 per cent for several years, reflecting not only rising standards and rising salary levels, but also the continued increase necessary in staff and facilities as the number of young people in schools and training establishments continues to increase.

Personal Expenditure

Consumer expenditure remained an important sustaining force in 1965, rising by over 7 per cent and accounting for about two-fifths of the rise in total demand. Personal expenditures on durables in the first nine months of the year were just over 8 per cent above the level recorded during the same months of 1964. These purchases were strongly concentrated in new and used cars, and spending on home furnishings was also higher. This 8 per cent rate of increase was in keeping with the long-term rate for the period 1949 to 1965, and was below the rates of increase which occurred in both 1963 and 1964.

Purchases of non-durable goods in 1965 rose by just under 7 per cent. This movement reflected not only a larger volume of purchases, but also the sharp increase in the price of some food products during the course of the year. Purchases of services by consumers also rose substantially, and here again a significant rise in some prices contributed measurably to the overall increase. Table 28 compares the various growth rates, in both current and constant dollars, of the components of consumer expenditure in the postwar period.

TABLE 28
COMPONENTS OF PERSONAL EXPENDITURE
ANNUAL GROWTH RATES
Per cent

	1949 to 1965		1961 to 1965		1964 to 1965	
	\$ current	\$ constant	\$ current	\$ constant	\$ current	\$ constant
Non-durables.....	5.5	4.0	5.6	4.1	6.8	5.2
Durables.....	7.9	7.0	9.3	9.6	8.1	8.7
Services.....	8.4	4.6	6.4	4.3	7.7	4.9
Total.....	6.8	4.6	6.4	4.8	7.3	5.6

The aggregate increase in personal expenditure in 1965 reflected both the increase in employment and incomes and also the changing age-structure of the population. The sharp rise in the number of young people earning money was an

important factor. Purchases of used cars, clothing, some foods and beverages and many kinds of personal consumer services all increased substantially, in part as young people entered the market for consumer goods and services. On a per capita basis, consumer expenditures in constant dollars rose by about 3.0 per cent per year between 1961 and 1965, but the rate of advance in 1965 alone was in the region of 3.7 per cent.

It is of interest to compare the growth pattern in consumer expenditures over recent years and over the longer term, as they are set out in Table 28. While personal consumption patterns are, of course, influenced strongly by relative price movements, the constant-dollar trend comparisons over the longer term give some insight into the changing economic structure (as it is reflected in final consumption patterns) and changing standards of living in Canada. The period from 1949 to 1965 shows an annual rise in total consumption of 4.6 per cent. Population during this period has risen by 2.4 per cent per year, so that real consumption has risen by more than 2 per cent per year. As the table shows, purchases of durables of all kinds—cars, furniture and home appliances—have shown the most rapid rate of growth, while purchases of services has risen at about the same rate as total purchases. In many ways, these trends have reflected the rapid modernization, the growth of the cities and the move to the suburbs which characterized these years. The rise in expenditures on non-durable items, although lower than the others, is still above the rate of growth of population, indicating that living standards have been rising even apart from the urbanization developments.

The constant-dollar increases of 1965 were above the trends established both for the longer term and for the more recent 1961 to 1965 period, and were related to the high levels of employment and income.

Exports of Goods and Services

In 1965, the rise of 10.0 per cent in the value of non-farm merchandise exports more than matched the increase of 9.2 per cent in non-farm GNP at market prices. Largely as a result of the phasing of wheat shipments under special contracts, farm exports were lower than in 1964, bringing the growth in total merchandise exports down to 5.6 per cent. The position regarding wheat in 1965 is typical of a number of special factors which can, and do, affect the level of Canadian exports from time to time; apart from these, there also appears to have been some slowing-down in 1965 in the very high rate of growth of exports which had prevailed since 1962.

An important question for the Canadian economy is the extent to which this slowing-down was accounted for by less buoyant conditions in Canada's foreign markets in 1965, or by any change in the Canadian share in those markets. By far the greater part of the overall rise in Canadian exports in 1965 was accounted for by a 13.4 per cent increase in sales to the United States, which was about the same as the rise in U.S. merchandise imports from all sources. Although total United Kingdom imports rose a little in 1965, Canadian exports to Britain fell slightly, despite the fact that the weight of foodstuffs and industrial raw materials in those exports makes it unlikely that the impact of the emergency U.K. surcharge upon them was greater than the average for all U.K. imports. It is probable, however, that U.K. industry was running down its inventories of those raw materials which figure so prominently in Canadian exports, in response to fiscal and monetary measures other than the surcharge taken by the United Kingdom to deal with its balance of payments problem. In the case of the United States,

two major elements in the growth of U.S. imports in 1965 were coffee and steel; Canadian capacity in the one case, needless to say, is non-existent and in the other was heavily committed in 1965 to meeting domestic Canadian demand.

The case of exports to the rest of the world in 1965 is rather different. It may seem a little paradoxical that a year which saw the signing of a second very large contract to sell wheat to the Soviet Union, and of another with China which only the sale to Russia surpasses, should have seen an actual fall of \$100 million in total exports to countries other than the United States and the United Kingdom. The drop as such was entirely accounted for by the phasing of the wheat shipments; that is to say, by the fact that about \$300 million-worth was shipped

TABLE 29
CANADIAN COMMODITY EXPORTS
1964 and 1965
(Domestic and re-export, millions of dollars)

	1964	1965	% Change
To: United States.....	4,437.0	5,030.9	+13.4
United Kingdom.....	1,207.1	1,185.4	- 1.8
Other Commonwealth and Preferential.....	503.4	512.7	+ 1.8
All other countries.....	2,156.1	2,035.5	- 5.6
Total.....	8,303.5	8,764.5	+ 5.6

SOURCE: DBS

in 1964 under the first contract with the Soviet Union, but only about \$200 million-worth in 1965 under the second contract. The larger part of the second contract, and the beginning of shipments under the new contract with China, fall in 1966. Although the drop is explicable in terms of wheat, non-farm exports to countries other than the United States and the United Kingdom nevertheless showed no significant rise, remaining on the plateau reached in 1964. The Communist countries are negligible markets for the Canadian minerals, chemicals and manufactured goods concerned, and the less developed countries take comparatively modest quantities; Canada evidently succeeded in maintaining sales at about their 1964 level in the markets of Western Europe and Japan. The growth of demand in some of these countries was affected by stabilization measures designed to reduce inflationary pressures or improve the balance of payments. Some of these measures may have had a significant effect on the inventories of commodities which Canada normally exports to these countries.

While Canadian exports to overseas markets did not show much change, the rise in Canadian sales below the border was substantial. Under the stimulus of the new Automotive Free Trade Agreement with the United States, total Canadian exports of automobiles and parts increased by no less than 90 per cent, and this in the first year of the Agreement, during which the rationalization and enlargement of production runs at which it is aimed can only have begun to get under way. (It should be added that imports rose by only a quarter, although by an absolutely greater value.) Offsetting this striking growth to some extent was a rather lower total of exports of aircraft and parts, under production-sharing arrangements, than in the exceptional year 1964, when they rose by 130 per cent.

Increases in 1965 in exports of the crude and semi-processed materials which account for the majority of Canadian non-farm exports tended to range fairly narrowly about the global average of $5\frac{1}{2}$ per cent. Two exceptions to this were soft-wood lumber, exports of which increased by 1.0 per cent, and aluminum and its alloys, which recorded an export gain of 12.4 per cent.

The breakdown of Canadian merchandise exports by major commodity groups in Table 29 is presented for 1965 in terms of the twelve-month period ending on September 30. Data for the calendar year are not yet available, but the period shown has in any case the advantage of eliminating most of the effect of both the first and second major wheat contracts with the Soviet Union and thus representing fairly accurately the change which has taken place in the basic composition of Canadian export trade since 1961. For two or three years to come, at least, major special wheat sales are likely to raise the share of total exports accounted for by farm and fish products above 20 per cent again; and the development of potash exports should progressively raise both the share accounted for

TABLE 30
MERCHANDISE EXPORTS BY COMMODITY GROUPS
1961 and 1965

	Farm and Fish Products	Forest Products	Metals and Minerals	Chem- icals and Ferti- lizers	Other Manu- factured and Miscel- laneous	Re- Exports	Total
1961 million dollars.....	1,301	1,623	1,861	251	719	140	5,896
% of total.....	22.1	27.5	31.6	4.3	12.2	2.4	100.0
1965 million dollars.....	1,542	2,071	2,623	324	1,589	229	8,378
% of total..... (year ending Sept. 30)	18.4	24.7	31.3	3.9	19.0	2.7	100.0
% Increase 1965 over 1961....	18.5	27.6	40.9	29.1	121.0	63.6	42.1

by chemicals and fertilizers, and the comparatively lower rate of growth in such exports. But the general pattern has become quite clearly established, with growth in exports of manufactured goods some three times as high as that for the next most dynamic sector of domestic exports, metals and minerals. Growth in entrepôt trade has also been well above the average, but involves comparatively small values.

Exports of services (to which, by statistical convention, a proportion of domestic production of gold and the receipt of interest and dividends on Canadian investments abroad are attributed), rose by 8.0 per cent between 1964 and 1965. Although gold production has been declining slowly for a number of years, there were increases in receipts on all other non-merchandise accounts, and particularly in the cases of travel and inheritances and migrants' funds. In total, however, such receipts are heavily outweighed by corresponding payments for imports of services, and are best considered in terms of the net payments which result, as in the later section dealing with the balance of payments as such.

Changes in Inventories

Changes in business inventories usually accompany large swings in fixed investment, accentuating both expansions and contractions, although with somewhat different timing. Minor business cycles have frequently been identified with

inventory changes, which have on such occasions shown the largest swings in demand. In the present substantial and protracted expansion, however, fixed investment has become the driving force, and inventories have played a much lesser role.

In the past year, the increases in retail and wholesale sales appear to have drained off the additional supplies of goods as soon as they were produced, and producers have not accumulated large stocks. This was especially the case with automobiles, sales of which have continued at a high rate in most recent months.

The following table shows the latest available data on business inventories.

CHANGE IN NON-FARM BUSINESS INVENTORIES
(Seasonally adjusted at annual rates)

	1965		
	1st Q.	2nd Q.	3rd Q.
	(Millions of dollars)		
Manufacturing.....	540	308	256
Durables.....	(308)	(300)	(240)
Non-durables.....	(232)	(8)	(16)
Wholesale Trade.....	84	148	92
Retail Trade.....	204	216	332
"Other" Industries.....	116	96	20
Total.....	944	768	700

Inventory-sales ratios have been declining for several years, as computer techniques and other modern methods of inventory management have permitted improved control over flows and stocks. At the same time, relative price stability and ready availability of goods have meant that buyers have not needed or wanted to carry excessive stocks. In all of manufacturing, there is at present two months' supply on hand. Raw materials and goods in process increased somewhat more rapidly than finished goods in the past year, but in neither case were the increases very rapid. The relatively low level of finished goods inventories was reflected in a high level of unfilled orders at the end of 1965. At that time, new orders being received by manufacturers were running ahead of shipments, so that no early change in manufacturers' inventory positions was indicated.

GOVERNMENT SECTOR

Current Position

On a national accounts basis, combined revenue of all governments rose by more than 12 per cent in 1965 over the preceding year while expenditures increased by 10 per cent (on the basis of preliminary estimates). On balance, revenues rose faster in 1965 than expenditures, so that governments ran a surplus of about one-quarter of a billion dollars, compared with a deficit of about \$100 million in 1964. The change to an overall surplus arose from an increase in the federal surplus to \$535 million, and a smaller increase in provincial governments' surplus to almost \$300 million. Municipalities combined ran a deficit of about \$575 million, virtually unchanged from 1964.

REVENUES, EXPENDITURES AND FISCAL POSITION, BY LEVEL OF GOVERNMENT
(National accounts basis)

	1953	1964	1965 ⁽¹⁾
	(Millions of dollars)		
Federal—Revenue.....	4,726	8,132	8,940
Expenditure.....	4,584	7,886	8,405
Surplus (+) or deficit (—).....	+142	+246	+535
Provincial—Revenue.....	1,612	5,403	6,374
Expenditure.....	1,409	5,299	6,084
Surplus (+) or deficit (—).....	+203	+104	+290
Municipal—Revenue.....	1,119	3,594	3,945
Expenditure.....	1,289	4,046	4,519
Surplus (+) or deficit (—).....	—170	—452	—574
All Governments—Revenue ⁽²⁾	7,457	17,129	19,259
Expenditure ⁽²⁾⁽³⁾	7,282	17,231	19,008
Surplus (+) or Deficit (—).....	+175	—102	+251

⁽¹⁾ Department of Finance estimates based on preliminary DBS data.

⁽²⁾ Includes intergovernmental transfers.

⁽³⁾ Capital assistance is now included in government expenditure on a national accounts basis; in the past it has been omitted.

At the federal level, for which more detailed data are available, the surplus in 1965 more than doubled from the level of \$246 million in 1964. Federal revenue rose by more than three quarters of a billion dollars, mainly on account of increased taxation revenue. However, the percentage increase in taxes in 1965 was lower than the gain of 14.7 per cent recorded from 1963 to 1964, since tax adjustments took place in the course of the year. Despite the strong upward trend in labour income during the year, federal personal direct taxes rose less rapidly than in 1964, reflecting the reduction of 10 per cent in the basic personal income tax rate beginning July 1, 1965, and the higher abatements to the provinces effective the beginning of 1965. Corporate tax liabilities also increased somewhat less than in 1964, associated with the lower gain in corporate profits. The largest part of the increased taxation revenues in 1965 was accounted for by a 14 per cent rise in indirect taxes to a level of \$3,245 million, partly associated with the rise from 8 to 11 per cent in the sales tax on building materials and construction equipment as well as with the rapid increase in personal expenditures and the higher level of fixed capital formation.

In contrast to revenue, which showed a sharper increase in 1964 than last year, federal government expenditure on a national accounts basis rose more rapidly in 1965 than in 1964, from a level of \$7,886 million in 1964 to over \$8,400 million in 1965, a gain of 7 per cent. Outlays on non-defence goods and services rose by almost 15 per cent with substantial gains in capital outlays and higher wages and salaries, while expenditure on goods and services for defence increased only marginally over the year. Transfers from the federal to other levels of governments increased by about 14 per cent, to a level of almost \$1,430 million. Higher equalization payments and payments to the provinces under the various shared-cost programmes more than offset the effect of one province opting out from a number of shared-cost programmes. Outlays for the Trans-Canada Highway and for technical and vocational training were up substantially from their 1964 levels. Transfers to persons showed a larger increase than in the previous year with increased family allowances, veterans' pensions and old age security

TABLE 31
GOVERNMENT TRANSACTIONS ON A NATIONAL ACCOUNTS BASIS

	1965 ⁽¹⁾					
	1964			1Q	2Q	3Q
	1962	1963		(Millions of dollars)		
GOVERNMENT REVENUE						
Direct taxes—persons.....	2,730	2,911	3,407	3,772	3,872	3,916
Federal.....	2,088	2,193	2,558	2,724	2,760	2,628
Provincial and Municipal.....	642	718	849	1,048	1,112	1,288
Direct taxes—corporations.....	1,702	1,821	1,989	2,068	2,120	2,148
Federal.....	1,271	1,356	1,482	1,548	1,580	1,600
Provincial.....	431	465	507	520	540	548
Withholding taxes—Federal.....	125	127	140	160	176	160
Indirect taxes.....	5,565	5,879	6,648	7,096	7,300	7,540
Federal.....	2,401	2,451	2,847	3,000	3,144	3,344
Provincial and Municipal.....	3,164	3,428	3,801	4,096	4,156	4,196
Investment income.....	1,257	1,376	1,519	1,584	1,644	1,636
Federal.....	448	502	547	556	580	580
Provincial and Municipal.....	809	874	972	1,028	1,064	1,056
Employer and employee contributions to social insurance and government pension funds.....	812	847	892	908	952	948
Federal.....	518	534	558	572	604	584
Provincial and Municipal.....	294	313	334	336	348	364
Transfers from federal governments—						
Provincial and Municipal.....	1,134	1,169	1,254	1,516	1,448	1,308
Total Revenue	13,325	14,130	15,849	17,104	17,512	17,656
Federal.....	6,851	7,163	8,132	8,560	8,844	8,896
Provincial and Municipal.....	6,474	6,967	7,717	8,544	8,668	8,760

(1) Seasonally adjusted at annual rates.

SOURCE: DBS *The National Accounts, Income and Expenditure*, Quarterly.

	1962	1963	1964	1965 ⁽¹⁾		
				1Q	2Q	3Q
				(Millions of dollars)		
GOVERNMENT EXPENDITURE						
Goods and services.....	7,710	8,024	8,607	9,120	9,412	9,596
Federal—Defence.....	1,678	1,576	1,552	1,648	1,556	1,572
Non-defence.....	1,345	1,363	1,490	1,568	1,628	1,784
Provincial and Municipal.....	4,687	5,085	5,565	5,904	6,228	6,240
Transfer payments to persons.....	3,729	3,838	4,159	4,520	4,396	4,628
Federal.....	2,112	2,137	2,235	2,364	2,320	2,332
Provincial and Municipal.....	1,617	1,701	1,924	2,156	2,076	2,296
Interest on the public debt.....	1,302	1,420	1,532	1,604	1,628	1,644
Federal.....	866	935	995	1,052	1,036	1,040
Provincial and Municipal.....	436	485	537	552	592	604
Subsidies.....	292	311	317	204	240	256
Federal.....	260	275	278	164	200	216
Provincial.....	32	36	39	40	40	40
Capital Assistance—Federal ⁽²⁾	27	61	82	80	84	84
Transfers to Provincial and Municipal governments—						
Federal.....	1,134	1,169	1,254	1,516	1,448	1,308
Total Expenditure	14,194	14,823	15,951	17,044	17,208	17,516
Federal.....	7,422	7,516	7,886	8,392	8,272	8,336
Provincial and Municipal.....	6,772	7,307	8,065	8,652	8,936	9,180
Surplus (+) or Deficit (—)	—869	—693	—102	+60	+304	+140
Federal.....	—571	—353	+246	+168	+572	+560
Provincial and Municipal.....	—298	—340	—348	—108	—268	—420

⁽¹⁾ Seasonally adjusted at annual rates.

⁽²⁾ This item is now included in government expenditure on a national accounts basis; in the past it has been omitted.

Source: DBS, *The National Accounts, Income and Expenditure*, Quarterly.

payments more than offsetting a decline in unemployment insurance benefit payments. It will be recalled also that youth allowances were paid to 16- and 17-year-olds attending school, beginning in the fall of 1964.

The combined provincial-municipal deficit, on a national accounts basis, is estimated to have been somewhat lower in 1965 than in 1964. As noted above, the reduction represented some increase in the provincial surplus, while the municipal deficit was larger. For both levels of government combined, there was improvement through the year, with the exception of the second quarter.

Provincial-municipal expenditures continued to increase steadily during each quarter of the year, and for the year as a whole were up by about 13 per cent. The provinces increased their spending at a more rapid rate than their municipalities, as outlays on both capital goods and current expenditure rose substantially. More comment on trends in expenditure is given in following pages.

Revenue of provinces and municipalities, which rose very sharply in the first quarter partly because of the final settlement of fiscal 1963-64 federal-provincial fiscal arrangements and partly because of the increase in the federal abatement of personal income tax, moved up at a somewhat slower pace in the succeeding quarters.

Total provincial-municipal revenue is estimated to have been \$8.9 billion in 1965, higher by more than 14 per cent than it was in 1964. Indirect taxes rose from \$3.8 billion to \$4.2 billion over this period, due to higher collections of real property taxes, sales and gasoline taxes. Transfers from the federal government were also higher largely because of increased equalization payments. Moreover, the gain in personal income tax was unusually large on account of increased abatements in favour of all of the provinces from 18 per cent in 1964 to 21 per cent in 1965, with the exception of Quebec where the abatement increased to 44 per cent to compensate for withdrawal from a number of shared-cost programmes.

Trends in Revenues and Expenditures of Governments

Between the end of the Korean war in 1953 and 1965, the combined revenues and expenditures of all governments, adjusted for intergovernmental transfers, increased at an average annual rate of about $7\frac{1}{2}$ per cent, with only a modest difference in the overall surplus position at the terminal periods. During this time, however, the fiscal position of government as a whole swung considerably from a surplus of nearly \$400 million in 1956, to a deficit of over a billion dollars in 1958, through a succession of deficits to 1964, when near balance was achieved, to 1965 when there was a modest surplus. Almost all of the fluctuations occurred at the federal level, with the provincial governments showing generally a relatively steady and small surplus and the municipalities showing a deficit growing from about \$200 million to almost \$600 million over the period.

Since 1953 federal revenue has varied cyclically, but has risen over the interval by an average of over 5 per cent annually. By 1965 it had reached a level of \$8.9 billion.

Revenues from personal direct taxes more than doubled in the twelve year period and their share in total federal revenue increased from 28 to 30 per cent. This happened despite the considerable abatements of this tax in favour of the provinces, who were able to raise their share of total revenues from this source

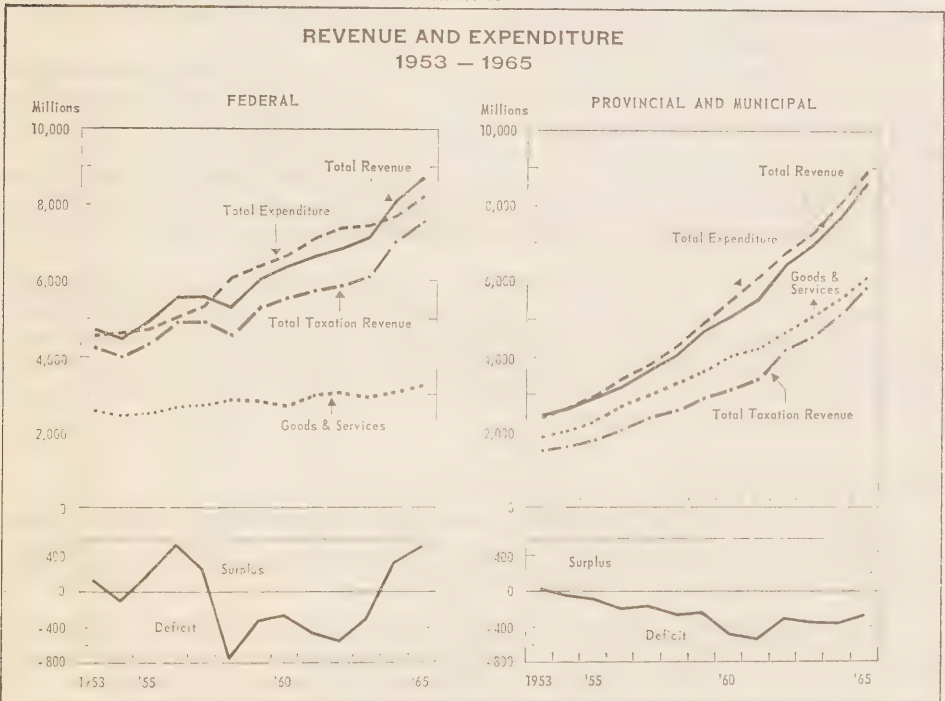
from 4 to 18 per cent. Changes in tax rates apart, it is known that personal direct taxes are highly elastic to income changes, increasing proportionately more over time.

Indirect taxes, which form a major source of federal revenues, increased by 5.5 per cent annually and showed little change in their relative proportion to total revenue; this rate of increase includes the effects of recent tax changes. Taxes on corporate income have shown the least growth since 1953. Income from investments and from employer and employee contributions to social insurance and government pension funds formed 10.6 per cent of federal revenues in 1953. By 1965, their ratio had increased to over 13 per cent.

Total federal expenditures on goods and services have grown by about 2 per cent annually since the end of the Korean war. However, outlays on goods and services for non-defence purposes rose by more than 150 per cent over this twelve year period, for an average annual gain of more than 8 per cent. Defence expenditures declined from a level of \$1.9 billion in 1953 to less than \$1.6 billion in 1965. Transfers to persons increased more rapidly than total federal outlays, and formed some 28 per cent of federal expenditures in 1965 compared to less than 23 per cent in 1953. This increase resulted mainly from higher payments for family allowances, unemployment insurance and old age security. Interest payments on the public debt also rose very rapidly.

CHART 18

REVENUE AND EXPENDITURE 1953 — 1965



Transfers from federal to provincial-municipal governments, which rose from 9 per cent of federal outlays in 1953 to about 17 per cent in 1965, increased more rapidly than any other component of federal expenditure. Despite additional abatements to the provinces in the field of taxation and increased provincial

reliance on direct sources of revenue, these transfers have risen to an annual rate of more than \$1.4 billion in the current period. They include the introduction of payments under the Hospital Insurance and Diagnostic Services Act and for unemployment assistance; increased emphasis for highway construction and technical and vocational training programmes; and unconditional statutory grants and equalization payments.

Since 1953, the share of provincial-municipal income and outlays has increased markedly in the combined governments' revenue and expenditure. Provincial-municipal revenue has more than tripled; this increase has been almost entirely related to the growth in their taxation revenue and transfer receipts. Apart from transfer receipts from the federal government, the most rapid increase in provincial-municipal revenue has taken place in personal direct taxes as a result of changes which took place in the tax-sharing arrangements between the different levels of government. Receipts from indirect taxes, the main source of provincial and municipal revenue, have also increased rapidly. Real property taxes remain by far the largest single revenue source, although receipts from the retail sales tax (excluding gasoline tax but including taxes on liquor and tobacco) have continued to increase rapidly, so that revenue from this source is now equivalent to almost one-half of that obtained from the municipal real property tax. Transfers from the federal government have expanded by 11 per cent, approximately the same rate as total provincial-municipal revenue. It is of interest to note that the transfers from the federal government to the provinces are roughly equal in size to the transfers from the provinces to their municipalities.

Provincial-municipal expenditures on goods and services have been expanding at a distinctly faster rate than federal outlays, with sharp expansion in fixed capital formation, wages and salaries and other expenditures on goods and services, primarily for education. As would be inferred from the relatively unchanging fiscal position of provinces and municipalities, these increases in expenditures have about matched the increases in revenues brought about by a higher tax base, higher rates, and abatements and transfers from the federal government.

As a proportion of gross national expenditure, provincial-municipal spending on goods and services rose from 7.5 per cent in 1953 to 12 per cent in 1965. Transfers to persons, mostly in the form of pensions and other social expenditures, as well as grants to hospitals and other non-commercial institutions, increased almost five times over that period. Interest on the public debt and subsidy payments also increased very rapidly.

Analysis by Function

Apart from a national accounts framework, there are other ways of measuring the transactions of government, such as the system used in the Public Accounts and the DBS classifications of revenues by source and expenditure by function.

Federal transactions on a public accounts basis are discussed in considerable detail in Part II of this document and therefore the analysis is not repeated here. Perhaps some background should be given for the analysis by function.

As is well known, the *raison d'être* of government is the collective provision of services. Some of these services such as the keeping of order within a nation, protection from outside attack and the regulation of economic affairs in the general interest can only be provided by government. Similarly, basic services needed for community living, such as refuse disposal, sanitation, fire protection,

TABLE 32
 PERCENTAGE DISTRIBUTION BY FUNCTION OF NET GENERAL EXPENDITURE OF GOVERNMENTS
 (After elimination of inter-government transfers)
 For the Fiscal Year Ended Nearest to December 31

	Federal			Provincial-Municipal				Total		
	1952	1962	1964	1952	1962	1964		1952	1962	1964
	(per cent)									
Defence services and mutual aid.....	45.7	23.3	21.0	—	—	—		30.5	12.6	10.6
Veterans' pensions and other benefits.....	5.6	4.9	4.6	—	12.5	12.0		3.7	2.7	2.3
Health.....	1.1	6.2	7.0	11.6	3.0	3.0		4.6	9.1	9.6
Sanitation and waste removal.....	—	—	—	2.4	5.8	5.0		0.9	1.4	1.4
Social welfare.....	17.8	22.8	24.0	5.8	31.9	31.0		13.8	15.0	14.7
Education.....	0.5	4.0	3.1	27.2	18.7	22.0		9.4	16.9	16.8
Transportation and communications.....	3.4	6.3	6.8	23.9	3.3	3.0		10.2	12.0	14.3
Natural resources and primary industries.....	3.9	5.2	5.0	4.5	4.8	5.5		4.1	4.3	4.2
Debt charges (excluding debt retirement).....	9.5	11.0	11.0	4.6	5.3	5.0		7.9	8.1	8.2
General government.....	4.0	4.2	4.5	8.1	7.6	7.0		4.4	4.7	4.7
Protection of persons and property.....	1.1	1.4	1.9	6.5	7.1	6.5		3.4	4.2	4.4
Other.....	7.4	10.6	11.1	—	—	—		7.1	9.0	8.8
Total Net General Expenditure.....	100.0	100.0	100.0	100.0	100.0	100.0		100.0	100.0	100.0

Source: see footnote table 34.

roads, etc., which are of benefit to all rather than to a particular industry or class within the community, are generally provided through governmental channels.

TABLE 33

PERCENTAGE DISTRIBUTION OF FUNCTIONAL NET GENERAL EXPENDITURE
BETWEEN GOVERNMENTS

(After elimination of inter-government transfers)

For the Fiscal Year Ended Nearest to December 31

Function	1952		1962		1964	
	Federal	Provincial-Municipal	Federal	Provincial-Municipal	Federal	Provincial-Municipal
	(per cent)					
Defence services and mutual aid..	100.0	—	100.0	—	100.0	—
Veterans' pensions and other benefits.....	100.0	—	100.0	—	100.0	—
Health.....	16.0	84.0	36.9	63.1	37.0	63.0
Sanitation and waste removal....	—	100.0	—	100.0	—	100.0
Social welfare.....	86.0	14.0	82.2	17.8	83.0	17.0
Education.....	3.2	96.8	12.8	87.2	9.0	91.0
Transportation and communications.....	22.0	78.0	28.5	71.5	24.0	76.0
Natural resources and primary industries.....	63.3	36.7	65.0	35.0	61.0	39.0
Debt charges (excluding debt retirement).....	80.6	19.4	72.9	27.1	68.0	32.0
General government.....	60.4	39.6	48.3	51.7	49.0	51.0
Protection of persons and property	20.9	79.1	17.7	82.3	21.0	79.0
Other.....	69.5	30.5	63.6	36.4	64.0	36.0
Total Net General Expenditure.....	66.7	33.3	51.0	46.0	51.0	49.0

SOURCE: see footnote table 34.

The type of services provided by governments can be analytically classified according to the broad purposes or functions for which these are created. These functions are analogous to industry classification used for identifying types of production. Tables 32 and 33 give an indication of the percentage breakdown of net general expenditure of governments and the share of expenditure, by function, carried out by the different levels of government. However, consolidation of these figures leads to certain technical statistical problems and these have been treated as follows: a) Grants-in-aid and shared-cost contributions between governments have been included in the expenditures of the paying government and are excluded from the expenditures of the receiving government. b) General grants and subsidies and payments made under fiscal and tax-sharing arrangements are eliminated from the expenditure of the paying government only. c) Ordinary expenditures of municipal utilities and enterprises, hospitals, libraries and certain special areas are not included nor are capital expenditures of utilities and enterprises.

Several points are apparent from the functional comparisons by level of government.⁽¹⁾ The percentages indicate that the federal government bears the major share in the provision of services related to social welfare, natural resources and primary industries and debt charges exclusive of debt retirement, along with, of course, the total cost of defence and veterans' pensions and benefits. These items account for two-thirds of federal net general expenditure.

⁽¹⁾ It might be noted that there are some differences between the functional classification used by DBS and the Public Accounts series discussed in Part II.

TABLE 34
CHANGES BY FUNCTION IN NET GENERAL EXPENDITURE OF ALL GOVERNMENTS--
ANNUAL COMPOUND RATE BETWEEN FISCAL YEARS
ENDING CLOSEST TO DECEMBER 31
(after elimination of inter-government transfers)

	1952-1957			1957-1962			1962-1964		
	Federal	Provincial-Municipal	Total	Federal	Provincial-Municipal	Total	Federal	Provincial-Municipal	Total
1. Defence services and mutual aid	-2.3	—	-2.3	-1.3	—	-1.3	-0.5	—	-0.5
2. Veterans' pensions and other benefits	4.3	—	4.3	3.2	—	3.2	1.8	—	1.8
3. Health	6.2	9.6	9.1	47.0	13.7	21.0	11.7	11.2	11.4
4. Sanitation and waste removal	—	18.5	18.5	—	8.8	8.8	—	6.0	6.0
5. Social welfare	7.0	10.6	7.5	8.4	11.1	8.8	7.5	6.0	7.2
6. Education	39.0	12.2	13.5	23.0	13.0	14.0	-8.5	10.3	8.1
7. Transportation and communications	14.9	12.0	12.7	9.1	4.3	5.5	8.3	22.0	18.5
8. Natural resources and primary industries	2.5	9.4	5.2	14.3	5.5	10.7	3.2	11.8	6.3
9. Debt charges (excluding debt retirement)	4.6	8.3	5.3	8.6	14.4	10.0	4.8	19.5	9.0
10. General government	12.2	11.6	12.0	-0.7	10.2	4.1	8.5	7.6	8.0
11. Protection of persons and property	7.6	10.5	9.9	7.9	9.5	9.2	21.0	8.6	11.0
12. Other	11.1	14.5	12.2	6.6	9.1	7.5	7.4	7.0	7.3
Total Net General Expenditure	3.8	11.6	6.7	6.3	10.0	7.9	4.9	12.4	8.4

SOURCE: 1952 to 1962 based on DBS publication *Historical Review—Financial Statistics of Governments in Canada 1952-62*, catalogue No. 68-503 occasional. 1962-64 comparison estimated by Department of Finance.

TABLE 35
FEDERAL GOVERNMENT REVENUES AND EXPENDITURES
PUBLIC ACCOUNTS AND NATIONAL ACCOUNTS RECONCILIATION

	1963-64	1964-65	1965-66	1964				1965			
				1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
	(Millions of dollars)										
1. Budgetary revenue.....	6,253	7,180	7,673	1,688	1,772	1,721	1,835	1,852	1,918	1,862	1,944
2. Supplementary period adjustment ⁽¹⁾	-21	-42	44	-146	146	—	—	-188	188	—	—
3. Extra-budgetary revenues.....											
Old Age Security tax collections.....	747	959	1,170	202	247	214	220	278	300	272	279
Prairie Farm Assistance Act levy.....	9	10	10	2	2	4	2	2	1	5	2
Unemployment insurance employer-employee contributions.....	297	310	328	77	71	78	79	82	74	84	84
Government pension funds—employer-employee contributions.....	244	270	279	65	69	67	68	66	70	70	72
Interest receipts of social insurance and government pension funds.....	142	158	180	37	37	39	39	43	43	45	46
4. Corporate income tax ⁽²⁾ ; excess (+) of accruals over collections.....	+ 40	-162	-114	-10	-128	-8	6	-32	-139	2	+44
5. Profits before taxes (net of losses) of government business enterprises.....	205	226	247	42	43	61	86	36	59	55	98
6. Interest on loans, advances and investments.....	184	187	203	43	43	43	57	44	51	45	53
7. Less: Budgetary return on investments.....	-391	-382	-477	-112	-102	-60	-95	-125	-138	-120	-93
8. Less: Postal revenue.....	-201	-231	-236	-52	-53	-49	-70	-59	-57	-49	-73
9. Budgetary revenue items offset against budgetary expenditures ⁽³⁾	-109	-125	-132	-28	-30	-31	-32	-32	-33	-33	-33
10. All other adjustments to budgetary revenue ⁽⁴⁾	-43	-33	-45	-35	-9	-12	-10	-22	-13	-6	-16
11. Total Revenue, National Accounts Basis ⁽⁵⁾	7,356	8,325	9,130	1,773	2,108	2,067	2,205	1,945	2,324	2,232	2,439

⁽¹⁾In the National Accounts, revenues in the supplementary period are shifted to the following fiscal year.

⁽²⁾Taxes on government business enterprises are excluded from this item and included in item 5.

⁽³⁾See also line 8 expenditure reconciliation.

⁽⁴⁾These adjustments are largely revenue items not relevant for the National Accounts such as proceeds from sales of existing assets.

⁽⁵⁾Department of Finance estimates based on preliminary DBS data.

TABLE 35—Concluded

	1963-64	1964-65		1964				1965			
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
		(Millions of dollars)									
1. Budgetary expenditure.....	6,872	7,218	7,707	2,265	1,420	1,675	1,809	2,314	1,492	1,785	1,915
2. Supplementary period adjustment ⁽¹⁾	- 32	- 53	+ 58	-408	408	—	—	-461	461	—	—
3. Expenditures of extra-budgetary funds.....											
Old Age Security Fund payments.....	808	885	929	218	220	221	222	222	224	226	228
Unemployment Insurance benefits.....	366	335	306	150	102	40	52	141	91	36	44
Government Pension Fund payments.....	86	101	115	24	24	25	26	26	27	28	28
Prairie Farm Assistance payments.....	11	11	10	7	—	—	2	9	2	—	1
4. Transfers to extra-budgetary funds.....	- 66	- 63	- 65	- 15	- 16	- 15	- 16	- 16	- 16	- 17	- 17
5. Adjustment to place other government funds and crown agencies on a disbursement basis ⁽²⁾	8	33	11	- 15	- 92	40	- 17	102	-100	32	23
6. Budgetary expenditures offset against income of government business enterprises.....											
Post-Office expenditures.....	-206	-211	-235	- 53	- 51	- 50	- 54	- 56	- 54	- 61	- 63
Deficits of government business enterprises.....	- 73	- 92	-126	- 5	- 59	- 10	- 12	- 11	- 84	- 8	- 4
7. Reserves and write-offs.....	-152	- 43	- 35	- 87	- 11	- 10	- 11	- 11	- 32	- 9	- 7
8. Budgetary revenue items offset against budgetary expenditure ⁽³⁾	-109	-125	-132	- 28	- 30	- 31	- 32	- 32	- 33	- 33	- 33
9. All other adjustments to budgetary expenditure.....	79	50	93	- 25	62	32	—	- 44	86	73	- 9
10. Total Expenditure, National Accounts Basis ⁽⁴⁾	7,592	8,046	8,636	2,028	1,977	1,917	1,969	2,183	2,064	2,052	2,106
11. Surplus (+) or deficit (-), National Accounts basis ⁽⁴⁾	-236	+279	+494	-255	+131	+150	+236	-238	+260	+180	+333
12. Surplus (+) or deficit (-), budgetary basis.....	-619	- 38	- 34	-577	+352	+ 46	+ 26	-462	+426	+ 77	+ 29
13. Total, National Accounts basis.....	7,356	8,325	9,130	1,773	2,108	2,067	2,205	1,945	2,324	2,232	2,439

⁽¹⁾ In the National Accounts, expenditures on goods and services in the supplementary period are split evenly between adjacent fiscal years. Most other expenditure items are shifted entirely to the next fiscal year.

⁽²⁾ This adjustment replaces budgetary appropriations to various funds and agencies by the outlays actually made by these funds and agencies.

⁽³⁾ The largest component of this item consists of revenue from sales of goods and services by the government. These sales appear as final expenditure of the private sector and are deducted to avoid double counting.

⁽⁴⁾ Department of Finance revised estimates based on preliminary DBS data. There are some minor differences between these revised estimates and those appearing in Table 31.

The provinces provide the major share of health services and share with municipalities the cost of education. At the provincial level, outlays connected with education, health, and roads, highways and bridges absorb 70% of their spending.

Sanitation and waste removal costs are borne exclusively by municipalities but this forms only about 7% of their spending. The major share of their expenditure is on schools, roads and streets, and recreational facilities, the latter being included in the item "other".

Four functions—defence, social welfare, education, and transportation facilities and the "other" category which includes recreational and cultural facilities and trade development—account for about two-thirds of total net general expenditures of all levels of government combined.

The trend in services provided by governments is also of considerable analytical interest. Table 34 shows the average annual rate of change from 1952 through to 1964. This time span has been broken into three intervals, to show the rate at which particular services have speeded up or declined as between one period and another. Because the allocation of responsibility between the provinces and municipalities may shift over time, these two levels of government have been combined for these comparisons.

These time comparisons indicate that the average rate of growth in total government net general expenditures has speeded up from 7.9% per year between 1957 and 1962 to 8.4% per year in the more recent period. The rate at the federal level abated between these years, but it has been more than offset by the acceleration at the provincial-municipal levels. Two areas—streets, roads and bridges, and debt charges—share the sharpest increase in the recent period. This is related to the demands for infrastructure facilities arising from urban growth in the recent expansion. Most of those capital facilities at the municipal level seem to be financed by borrowing, as indicated by the increasing debt charges.

The sharp increase in federal expenditures on health shown in the 1957–62 period was caused by the introduction of the hospital insurance programme, while the apparent decline in education outlays between 1962 and 1964 was related to unusually high payments in 1962 for the federal government's share of the cost of building technical and vocational schools.

BALANCE OF INTERNATIONAL PAYMENTS

The year 1965 saw marked changes both in particular sectors and in the overall pattern of Canada's payments relationship with the rest of the world. There was some increase in the total of official reserve assets, despite the fact that the deficit on current account more than doubled. The current account position reflected rising pressure of demand in the domestic economy, offset by special circumstances on the trading account to a lesser extent than in 1963 and 1964. The movements in the capital account in 1965 were, on the other hand, affected by special factors. The inflow of funds which occurred was exceptional in its composition. Having opened with changes in the pattern of Canadian payments as a result of one U.S. programme of balance of payments guidelines, the year closed with further U.S. measures, and with the extension of specific arrangements between Canada and the United States to take account of their interdependence in this field.

TABLE 36
SUMMARY OF BALANCE OF PAYMENTS
(not seasonally adjusted)

	1964				1965			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
	(Millions of dollars)							
Merchandise trade balance.....	+ 35	+150	+354	+161	- 42	- 28	+155	+ 16
Deficit on non-merchandise transactions.....	-373	-298	-140	-322	-359	-339	-145	-394
Current account balance.....	-338	-148	+214	-161	-401	-367	+ 10	-378
Capital movements (+ inflow) (- outflow)								
Long-term forms.....	- 15	+152	+223	+493	+121	+ 90	+214	+183
Short-term forms.....	+311	+ 64	-281	-151	+208	+278	+ 2	+197
	- 42	+ 68	+156	+181	- 72	+ 1	+226	+ 2
Change in official holdings of gold and foreign exchange expressed in Canadian dollars (+ increase).....	-127	+ 62	+ 97	+ 54	-118	- 92	+144	+ 55
(- decrease)								
Net International Monetary Fund position.....	+ 85	+ 6	+ 59	+127	+ 46	+ 93	+ 82	- 53
	- 42	+ 68	+156	+181	- 72	+ 1	+226	+ 2

The Current Account

The simple fact that the deficit on current trade in goods and services rose from \$433 million in 1964 to \$1,136 million in 1965 suggests a more rapid widening of Canada's deficit on current international transactions than might otherwise have been expected. But a balance struck for a year as a whole does not fully reflect the underlying trend in the Canadian economy's requirement for external resources, which was already rising towards the end of 1964.

The higher rates of economic growth, and of business investment in particular, to which the economy moved in 1963, have reversed for the time being the trend of delining current account deficits which set in after 1959. It is typical of the Canadian economy that, as it approaches the limits of its own resources, the

incentive for drawing in resources from abroad is increased. As far as the current account is concerned, this will be reflected in practice in increased imports, not only of capital equipment, but also of consumer goods.

TABLE 37
INTERNATIONAL PAYMENTS: CURRENT ACCOUNT

	1959	1960	1961	1962	1963	1964	1965
	(Millions of dollars)						
Current Receipts—							
Merchandise exports (adjusted).....	5,150	5,392	5,889	6,380	7,082	8,240	8,737
Gold available for export..	148	162	162	155	154	145	138
Travel expenditures.....	391	420	482	562	609	662	737
Interest and dividends.....	182	173	209	202	230	313	315
Freight and shipping.....	420	442	486	509	563	645	656
Inheritances and immigrants' funds.....	109	102	103	124	151	169	211
Other current receipts.....	392	419	403	451	473	502	573
Total Current Receipts	6,792	7,110	7,734	8,383	9,262	10,676	11,367
Current Payments—							
Merchandise imports (adjusted).....	5,572	5,540	5,716	6,203	6,579	7,540	8,636
Travel expenditures.....	598	627	642	605	585	712	786
Interest and dividends.....	671	653	770	794	860	978	1,048
Freight and shipping.....	525	533	568	595	648	685	736
Inheritances and emigrants' funds.....	165	181	174	175	186	190	206
Official contributions.....	72	61	56	36	65	69	92
Other current payments...	693	758	790	849	881	935	999
Total Current Payments	8,296	8,353	8,716	9,257	9,804	11,109	12,503
Balance on merchandise trade.....	-422	-148	+173	+177	+503	+700	+101
Balance on other transactions	-1,082	-1,095	-1,155	-1,051	-1,045	-1,133	-1,237
Current Account Balance..	-1,504	-1,243	-982	-874	-542	-433	-1,136

SOURCE: DBS Quarterly Estimates of the Canadian Balance of Payments, Cat. 67-001.

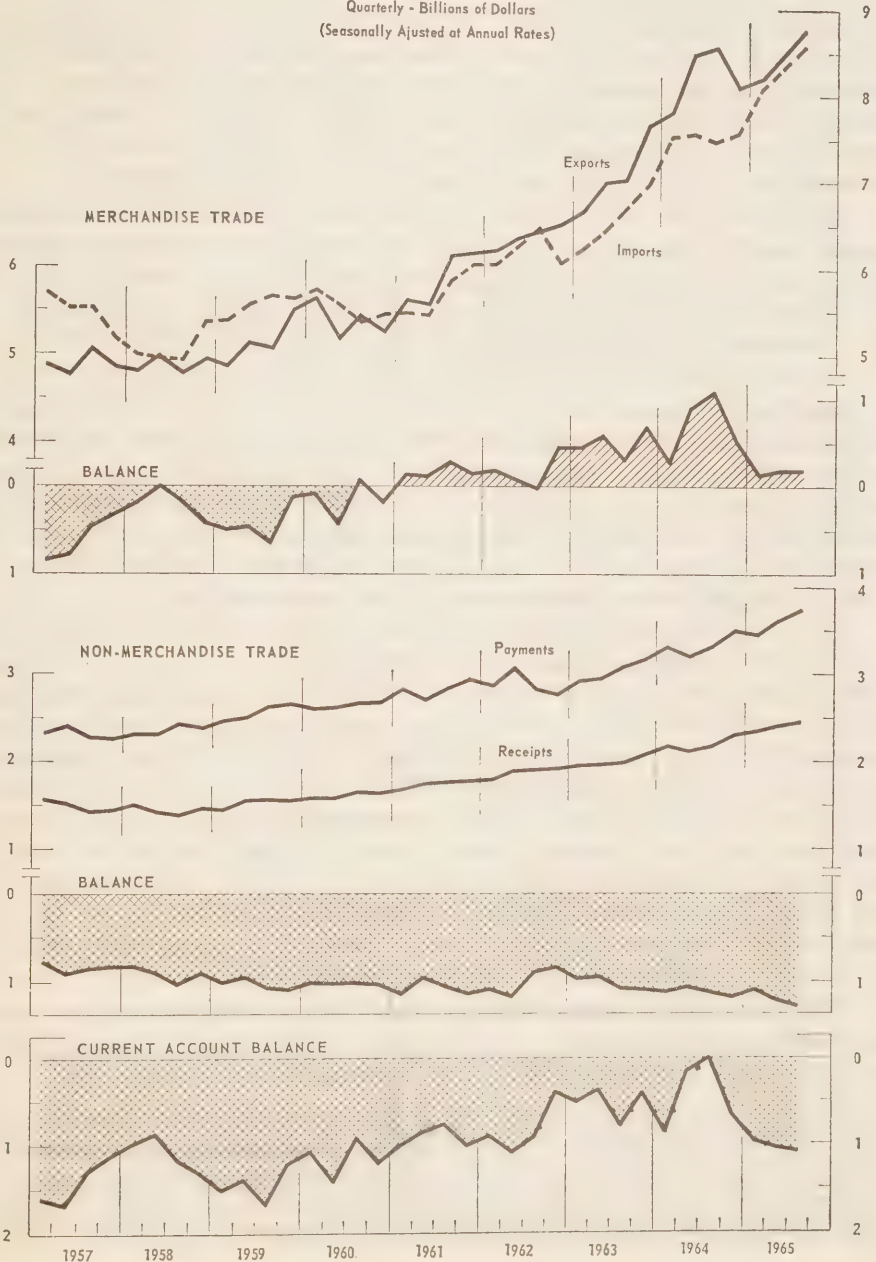
Canadian merchandise imports have been rising strongly since the removal of the emergency surcharges early in 1963, though they levelled off for several months in 1964. The main reason why this trend did not reduce the net merchandise surplus until late 1964, and is not seen in the annual net balance shown in Table 37 until 1965, was the fact that exports of goods had been rising faster still. This growth in exports was solidly founded on demand in foreign markets for Canadian raw materials and on the growing volume and improved competitiveness of Canadian secondary manufacturing. The margin by which the growth of exports exceeded that of imports, however, was largely attributable to the first special sale of wheat to the Soviet Union, combined with large shipments under contract to China; imports were affected by strikes in the automobile industry, first in the United States and then in Canada, which cut the flow of parts and vehicles across the border.

In the earlier months of 1965, none of these special factors was any longer an influence, while imports were growing rapidly in response to investment expenditures in Canada. The merchandise trade surplus therefore fell abruptly, on a seasonally adjusted basis and at annual rates, from a peak of \$1.1 billion in

CHART 19

CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS 1957 — 1965

NATIONAL ACCOUNT BASIS
Quarterly - Billions of Dollars
(Seasonally Adjusted at Annual Rates)



the third quarter of 1964, through \$0.5 billion in the fourth, to a low point of just over \$100 million in the first quarter of 1965. From this it rose slightly in both the second and third quarters of 1965, but disappeared in the fourth quarter, even though shipments of wheat under the second major contract with the Soviet Union got under way during that period.

On non-merchandise account, the smallest deficit in recent years, on a seasonally adjusted basis and at an annual rate, was that of about \$850 million recorded in the last quarter of 1962, when the impact of the devaluation and emergency measures effected earlier that year was at its height, especially on the travel account. The deficit has grown again fairly slowly and steadily ever since, with some acceleration in the rate of growth in the second half of 1965.

This increase in the deficit on invisible trade pushed the overall current account deficit a little higher in each succeeding quarter of 1965; on a seasonally adjusted basis and at annual rates, the deficit rose from just under \$1 billion in the first quarter to just over this figure in the second, nearly \$1.1 billion in the third, and over \$1.5 billion in the fourth quarter, to give a deficit for the year as a whole of \$1,141 million, or \$1,136 million on a Balance of Payments basis.⁽¹⁾

Merchandise exports have been reviewed in an earlier section. Adjusted for balance of payments purposes, they rose by 6.0 per cent in 1965. Merchandise imports as recorded in Customs returns are also adjusted for balance of payments purposes; the total of \$8,636 million estimated for 1965 represented an increase of 14.5 per cent, with the resultant narrowing of the net merchandise surplus from \$700 million to \$101 million which largely contributed to the rise in the overall deficit on current account for the year as a whole.

This rise in imports seems to have been quite broadly based, although no detail is yet available in terms of major categories of end-use such as industrial materials, investment goods and consumer goods. The increase does not appear to have been quite as even as in 1964, however, when each of these three main categories of imports grew roughly in proportion with the others. Disregarding the special cases of automobiles and aircraft, import figures for 1965 show a fairly clear bias towards industrial and investment goods rather than consumer goods, and specifically towards materials and machinery used in construction. Reinforcing bars, structural steel shapes, cranes, front-end loaders and shovels, and track-laying tractors: these are typical of the individual import headings which recorded the most striking increases between 1964 and 1965, evidently as a direct result of the sharp rise in investment in construction.

Annual changes in aggregate imports, as chart 20 demonstrates, tend to be very much in line with changes in the aggregate of business investment (private gross fixed capital formation other than housing). This is not inconsistent with

⁽¹⁾ The above review in terms of seasonally adjusted figures and chart 19 which illustrates it are based on the National Accounts concept of the current external balance; this differs from Balance of Payments definitions only in that inheritances and migrants' funds are excluded. Since that particular account has been very close to balance in the past two years, the effect of this distinction is not important in a general analysis. Both concepts, whether or not subject to adjustment for seasonal factors, differ from Trade of Canada figures of merchandise trade, which are not adjusted for the timing of wheat shipments or for progress payments on ships, aircraft, and defence goods; but detailed analysis is only possible on the basis of the basic Trade of Canada commodity figures.

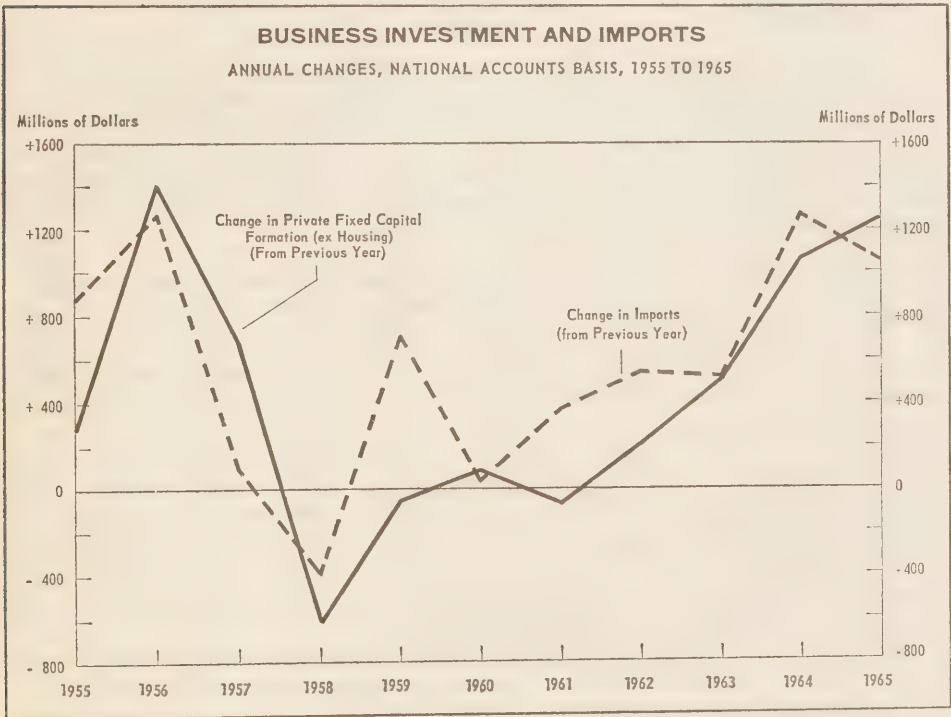
the slow long-term decline in the import content of Gross National Expenditure which has been taking place at least since the Korean war; but the sharp increase in investment in 1965 did raise the ratio of expenditure on imported goods to GNE: on a quarterly and seasonally adjusted basis, it rose to a peak of about 17.5 per cent of GNE in the fourth quarter, the highest level since the recession of 1957-58, but still below the ratios of 20.7 and 18.5 per cent recorded in 1951 and 1956 respectively.

RATIO OF IMPORT OF GOODS TO GROSS NATIONAL EXPENDITURE
(seasonally adjusted, per cent)

1964 1Q.....	16.4	1965 1Q.....	16.2
2Q.....	16.2	2Q.....	16.3
3Q.....	15.8	3Q.....	16.5
4Q.....	15.8	4Q.....	17.5 ⁽¹⁾

⁽¹⁾ Preliminary estimate.

CHART 20



The effect upon the net merchandise balance of these trends in exports and imports has already been described: on a year-to-year basis, the surplus fell from \$700 million in 1964 to \$101 million in 1965. Taking into account the special sale of wheat in each figure, the underlying merchandise account can be said to have swung from a surplus of about \$400 million to a deficit of some \$150 million (always subject to the qualification that other exports and imports would not necessarily have been the same in the absence of the special wheat sale).

TABLE 38

NON-MERCHANDISE ACCOUNT
(Seasonally adjusted at annual rates)
(National accounts basis)

	Receipts	Payments	Balance
	(Millions of dollars)		
1964—			
1Q.....	2,192	3,312	-1,120
2Q.....	2,124	3,200	-1,076
3Q.....	2,184	3,308	-1,124
4Q.....	2,308	3,500	-1,192
1965—			
1Q.....	2,348	3,452	-1,104
2Q.....	2,404	3,620	-1,216
3Q.....	2,460	3,736	-1,276
4Q.....	n.a.	n.a.	-1,428 ⁽¹⁾

(1) Department of Finance estimate.

n.a.—not available.

SOURCE: DBS *Ibid.*

From the quarterly and seasonally adjusted figures in Table 38, it will be seen that the rise in the non-merchandise deficit proceeded throughout the year, and was particularly marked in the fourth quarter. The jump from the third to the fourth quarter is largely attributable to a sharply higher rate of outpayment of dividends towards the end of the year. Until the fourth quarter, relatively high receipts from Canadian investments abroad had kept the net deficit on this account from rising as fast as in some recent years.

MAJOR ITEMS IN THE BALANCE ON NON-MERCHANDISE TRANSACTIONS
(Net receipts or payments, millions of dollars)

	1959	1960	1961	1962	1963	1964	1965
Gold production available for export.....	+148	+162	+162	+155	+154	+145	+138
Travel expenditures.....	-207	-207	-160	- 43	+ 24	- 50	- 49
Interest and dividends.....	-489	-480	-561	-592	-630	-665	-733
Freight and shipping.....	-105	- 91	- 82	- 86	- 85	- 40	- 80
Inheritances and migrants' funds.....	- 56	- 79	- 71	- 51	- 35	- 21	+ 5
Official contributions.....	- 72	- 61	- 56	- 36	- 65	- 69	- 92
All other non-merchandise transactions.....	-301	-339	-387	-398	-408	-433	-426
Balance on non-merchandise account.....	-1,082	-1,095	-1,155	-1,051	-1,045	-1,133	-1,237

The increased physical volume of merchandise trade resulted in some addition to net outpayments in respect of freight and shipping; official contributions of aid made directly and through international organizations were more than a third as high again as in 1964; and gold production was again a smaller credit item than in the previous year. On the three other main service accounts the net outpayments in 1965 were lower than in 1964. The marked rise in immigration since 1962, possibly coupled with some increase in the average value of the assets brought into the country by immigrants, has brought this account back into small surplus for the first time since 1953. The deficit on the residual

category of non-merchandise transactions, (which cover chiefly business services but also government expenditures, personal remittances and a certain proportion of debt interest and other income) has grown rather unevenly over the postwar period but has moved within a narrow range since 1961.

The deficit on travel account declined a little in 1965. It is not possible to deduce from this a structural improvement; but the swing back into deficit which occurred in 1964, as the immediate effect of the 1962 devaluation and limitation of tourist purchases wore off, seems to have been contained for the time being. A major factor in this is evidently the reduced cost of trans-Atlantic air travel: in 1964 this seemed to be chiefly acting upon travel by Canadians to Europe, but in 1965, as Table 39 indicates, lower fares appear to have been effective also in stimulating travel to Canada from Europe.

TABLE 39
BALANCE ON TRAVEL ACCOUNT
All Countries

	Receipts			Payments			Balance		
	U.S.	Rest of World	Total	U.S.	Rest of World	Total	U.S.	Rest of World	Total
	(Millions of dollars)								
1953.....	282	20	302	307	58	365	- 25	- 38	- 63
1954.....	283	22	305	320	69	389	- 37	- 47	- 84
1955.....	303	25	328	363	86	449	- 60	- 61	-121
1956.....	309	28	337	391	107	498	- 82	- 79	-161
1957.....	325	38	363	403	122	525	- 78	- 84	-162
1958.....	309	40	349	413	129	542	-104	- 89	-193
1959.....	351	40	391	448	150	598	- 97	-110	-207
1960.....	375	45	420	462	165	627	- 87	-120	-207
1961.....	435	47	482	459	183	642	- 24	-136	-160
1962.....	512	50	562	419	186	605	+ 93	-136	- 43
1963.....	549	60	609	388	197	585	+161	-137	+ 24
1964.....	590	72	662	481	231	712	+109	-159	- 50
1965.....	650	87	737	531	255	786	+119	-168	- 49

SOURCE: DBS *Ibid.*

TABLE 40
GEOGRAPHICAL DISTRIBUTION OF MERCHANDISE AND NON-MERCHANDISE
BALANCES

	United States		United Kingdom		Other Countries		All Countries	
	1964	1965	1964	1965	1964	1965	1964	1965
	(Millions of dollars)							
Merchandise Exports (adjusted)...	4,396	4,986	1,219	1,184	2,625	2,567	8,240	8,737
Merchandise Imports (adjusted)...	5,207	6,042	584	625	1,749	1,969	7,540	8,636
Trade balance.....	-811	-1,056	+635	+559	+876	+598	+700	+101
Non-merchandise receipts.....	1,621	1,764	385	359	430	507	2,436	2,630
Non-merchandise payments.....	2,465	2,639	413	422	691	806	3,569	3,867
Non-merchandise balance.....	-844	-875	-28	-63	-261	-299	-1,133	-1,237
Total current receipts.....	6,017	6,750	1,604	1,543	3,055	3,074	10,676	11,367
Total current payments.....	7,672	8,681	997	1,047	2,440	2,775	11,109	12,503
Current account balance.....	-1,655	-1,931	+607	+496	+615	+299	-433	-1,136

SOURCE: DBS *Ibid.*

The geographical pattern of Canada's current external account in 1965 was chiefly influenced by the substantial reduction in the merchandise surplus with overseas countries other than the United Kingdom, resulting from lower wheat shipments, and by further increases in the deficits on both merchandise and non-merchandise accounts with the United States. The overall current deficit with the United States, which is considered in more detail below, is raised from the figure of \$1,931 million shown in Table 40 to \$2,069 million when Canadian gold production is considered as a financing item rather than, as here, an item on the current account which is conventionally attributed to the United States.

TABLE 41
BALANCE OF PAYMENTS ON CURRENT ACCOUNT: MERCHANDISE
AND NON-MERCHANDISE BALANCE, 1946 TO 1965

	Merchandise Trade	Non- Merchandise Trade	Current Account Balance
(Millions of dollars)			
1946.....	+571	-208	+363
1947.....	+188	-139	+ 49
1948.....	+432	+ 19	+451
1949.....	+293	-116	+177
1950.....	+ 10	-344	-334
1951.....	-147	-370	-517
1952.....	+489	-325	+164
1953.....	- 58	-385	-443
1954.....	+ 13	-445	-432
1955.....	-211	-487	-698
1956.....	-728	-638	-1,366
1957.....	-594	-861	-1,455
1958.....	-179	-952	-1,131
1959.....	-422	-1,082	-1,504
1960.....	-148	-1,095	-1,243
1961.....	+173	-1,155	-982
1962.....	+177	-1,051	-874
1963.....	+503	-1,045	-542
1964.....	+700	-1,133	-433
1965.....	+101	-1,237	-1,136

SOURCE: DBS *Ibid.*

The Capital Account

The financing of the current account deficit was subject to abnormal features and certain distortions in 1965. In broad outline, the net inflow of long-term capital, which in recent decades has largely originated in the United States, was at a lower level than usual. The deficit was made up by a net inflow of short-term capital and there was some gain in official reserve assets. The really exceptional feature of this flow of short-term capital was that it was the net of very substantial flows into Canada from overseas and from Canada to the United States, in a comparatively abrupt reversal of movements which had been taking place in the opposite direction over a number of years, and particularly in 1964.

The reduction in the relative importance of long-term capital in the financing of the current deficit in 1965 occurred despite the maintenance of a fairly high rate of long-term new borrowing abroad.

In that part of the U.S. balance of payments programme introduced in February which was directed at U.S. non-financial corporations, direct investment abroad by such corporations was covered by a request that they should collectively improve their global balance of payments position, taking physical trade, income and capital investment all into account. Canada, however, was specifically exempted from this guideline.

Direct investment in Canada by non-residents in fact rose in 1965 from the particularly low levels recorded in 1963 and 1964, though at \$390 million it remained well below the level of at least a half-billion dollars which was typical of most of the previous decade. Direct investment abroad by Canadian residents was again at the relatively high annual level of \$100 million or so which has been recorded since 1962.

New guidelines for U.S. non-financial corporations were announced in December 1965. In these, a global target was again specified, but direct investment was also singled out for limitation by each corporation, in 1965 and 1966 taken together, to 90 per cent of the total for the three preceding years on a basis inclusive of retained earnings. The geographic basis upon which this was to be achieved was again left to the discretion of individual corporations, but the specific exemption of Canada was withdrawn.

Despite the fact that they are subject to the U.S. Interest Equalization Tax, net sales abroad of outstanding Canadian bonds and debentures continued at a relatively high level. However, as Table 44 shows, they were heavily outweighed by the repatriation of some \$240 million of outstanding Canadian common and preference stocks, a reflux of such securities (in other words, an outflow of capital) which was roughly twice as large as any previously recorded. This, then, was one major offset to the capital inflow from new issues. Another was the continued high level of capital outflows for the retirement of securities in the hands of non-residents, which have now exceeded \$300 million in each year since 1961. There was also a net outflow of long-term capital through net purchases by Canadians of foreign securities.

Repayment of both interest and principal on the postwar loan to the United Kingdom was waived for the second year running (although there was a small receipt of interest in respect of the deferment itself, which cannot be waived under the terms of the loan). As against the first receipt of U.S. \$50 million in 1964, the second capital receipt arising from the Columbia River Treaty was U.S. \$30 million. This was the proceeds upon maturity on November 1, 1965, of a medium-term non-marketable U.S. government security, the first of six annual maturities to this value, followed by a final maturity of U.S. \$23.9 million in 1971; these securities were purchased by the Minister of Finance in 1964 with the majority of the funds representing payment by the United States for its share of the first thirty years of downstream benefits from development of the Columbia River. A final offset to the inflow from long-term new issues was a substantial debit for the residual category of long-term capital, in large part associated with the extension of export credits.

The issue abroad by Canadian residents of new, long-term securities in 1965 was, as usual, largely accounted for by bonds and largely directed at the United States market. The total capital inflow from new issues shown in Table 42 was \$1,127 million, of which \$1,075 million is accounted for in Table 46 by deliveries of bonds to United States residents.

So much had occurred to disrupt, without actually restricting, access by Canadian borrowers to this market, that the third quarter of 1965 saw quite heavy offerings of new long-term Canadian securities in the New York market. When this heavy traffic persisted into the fourth quarter, the U.S. authorities requested Canadian co-operation in smoothing out the flow involved. The Minister of Finance requested major Canadian borrowers wherever possible to defer delivery of the securities concerned until after the turn of the year. Canadian borrowers co-operated by suspending some \$140 million of deliveries in this way.

TABLE 42
INTERNATIONAL PAYMENTS: CAPITAL MOVEMENTS

	1961	1962	1963	1964	1965
	(Millions of dollars)				
Direct investment in Canada.....	+ 520	+ 495	+ 280	+ 255	+ 390
Direct investment abroad.....	- 75	- 109	- 135	- 140	- 115
Canadian securities—					
Trade in outstanding bonds and debentures....	+ 61	+ 64	+ 39	+ 77	+ 64
Trade in outstanding common and preference stocks.....	+ 39	- 116	- 179	- 97	- 241
New issues.....	+ 538	+ 728	+ 784	+ 1,123	+ 1,127
Retirements.....	- 300	- 320	- 404	- 358	- 373
Foreign securities (total).....	- 34	- 65	+ 22	- 63	- 74
Loans and capital subscriptions by Government of Canada—					
Advances, etc.....	- 8	- 22	- 18	- 10	- 16
Repayments to Canada.....	+ 37	+ 129	+ 25	+ 9	+ 10
Columbia River Treaty, net ⁽¹⁾	-	-	-	+ 54	+ 32
Long-term capital transactions not included else- where.....	+ 132	- 116	+ 14	+ 3	- 196
Change in certain Canadian assets of foreigners—					
Canadian dollar deposits.....	+ 34	- 13	+ 43	+ 28	+ 30
Government of Canada demand liabilities ⁽²⁾ ...	- 2	- 4	+ 1	-	- 2
Canadian treasury bills.....	- 58	+ 4	- 27	- 16	- 12
Canadian commercial paper.....			- 23	- 11	+ 11
Canadian finance paper.....	+ 100	+ 133	+ 93	+ 176	- 179
Canadian finance company obligations not in- cluded elsewhere.....			+ 35	+ 49	+ 205
Bank balances and other short-term funds abroad.	+ 140	+ 93	- 258	- 524	- 136
All other transactions.....	+ 148	+ 148	+ 187	+ 241	+ 468
Net Capital Movements excluding monetary items shown below.....	+1,272	+1,029	+ 688	+ 796	+ 1,293
Official monetary movements in the form of:					
Change in official holdings of gold and foreign exchange.....	+ 229	+ 537	+ 60	+ 68	- 11
Change in net International Monetary Fund position.....	+ 61	- 378	+ 86	+ 277	+ 168
Other special international financial assistance.	-	- 4	-	-	-

⁽¹⁾ See reference to Columbia River Treaty on page 81.

⁽²⁾ Demand notes of international investment agencies other than the International Monetary Fund, Trust and Deposit Account of U.S. Government with Government of Canada.

TABLE 43
INTERNATIONAL PAYMENTS: QUARTERLY CAPITAL MOVEMENTS

	1964				1965			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
	(Millions of dollars)							
Direct investment in Canada.....	+ 69	+ 44	+ 52	+ 90	+ 70	+ 120	+ 100	+ 100
Direct investment abroad.....	- 44	- 68	- 3	- 25	- 35	- 5	- 50	- 25
Canadian securities—								
Trade in outstanding bonds and debentures.....	+ 4	+ 14	+ 37	+ 22	+ 3	+ 17	+ 38	+ 6
Trade in outstanding common and preference stocks.....	- 44	- 8	- 5	- 40	- 83	- 28	- 28	- 46
New issues.....	+ 138	+ 318	+ 117	+ 550	+ 273	+ 306	+ 298	+ 250
Retirements.....	- 109	- 100	- 57	- 92	- 66	- 176	- 57	- 74
Foreign securities (total).....	- 7	- 38	- 7	- 11	- 35	- 5	- 22	- 12
Loans and capital subscriptions by Government of Canada								
Advances, etc.....	- 2	-	-	- 8	-	-	-	- 16
Repayments to Canada.....	+ 4	+ 2	+ 1	+ 2	+ 5	+ 2	+ 1	+ 2
Columbia River Treaty net ⁽¹⁾	-	-	+ 54	-	-	-	-	+ 32
Long-term capital transactions not included elsewhere.....	- 24	- 12	+ 34	+ 5	- 11	- 85	- 66	- 34
Change in certain Canadian assets of foreigners:								
Canadian dollar deposits.....	+ 20	- 9	- 36	+ 53	+ 38	- 37	- 19	+ 48
Government of Canada demand liabilities ⁽²⁾	-	- 3	-	+ 3	- 1	- 4	- 5	+ 12
Canadian treasury bills.....	+ 4	+ 14	- 16	- 18	+ 27	- 10	- 2	- 3
Canadian commercial paper.....	+ 27	- 19	- 18	- 1	-	+ 7	+ 4	-
Canadian finance paper.....	+ 107	+ 102	+ 4	- 17	- 38	- 7	- 65	- 69
Canadian finance company obligations not included elsewhere.....	- 2	+ 1	+ 46	+ 37	+ 25	+ 99	+ 89	- 8
Bank balances and other short-term funds abroad.....	+ 150	- 127	- 104	- 385	+ 170	+ 140	- 73	- 101
All other transactions.....	+ 5	+ 105	- 67	+ 177	- 13	+ 90	+ 73	+ 318
Net Capital Movement excluding monetary items shown below.....	+ 296	+ 216	- 58	+ 342	+ 329	+ 368	+ 216	+ 380
Official monetary movements in the form of:								
Change in official holdings of gold and foreign exchange.....	- 127	+ 62	+ 97	+ 54	- 118	- 92	+ 144	+ 55
Change in net International Monetary Fund position.....	+ 85	+ 6	+ 59	+ 127	+ 46	+ 93	+ 82	- 53

⁽¹⁾ See reference to Columbia River Treaty on page 81.⁽²⁾ Demand notes of international investment agencies other than the International Monetary Fund, Trust and Deposit Account of U.S. Government with Government of Canada.

Source: DBS

TABLE 44

TRADE IN OUTSTANDING CANADIAN SECURITIES BETWEEN CANADA
AND ALL COUNTRIES

(Millions of dollars)

Period	Canadian Bonds and Debentures			Canadian Common and Preference Stocks			Total		
	Sales to	Purchases from	Net	Sales to	Purchases from	Net	Sales to	Purchases from	Net
1963—									
1Q.....	67	44	+23	124	181	-57	191	225	-34
2Q.....	86	59	+27	131	175	-44	217	234	-17
3Q.....	39	46	- 7	75	102	-27	114	148	-34
4Q.....	47	51	- 4	86	128	-42	133	179	-46
1964—									
1Q.....	38	34	+ 4	107	151	-44	145	185	-40
2Q.....	62	48	+14	164	172	- 8	226	220	+ 6
3Q.....	58	21	+37	137	142	- 5	195	163	+32
4Q.....	69	47	+22	127	167	-40	196	214	-18
1965—									
1Q.....	53	50	+ 3	127	210	-83	180	260	-80
2Q.....	43	26	+17	110	194	-84	153	220	-67
3Q.....	65	27	+38	75	103	-28	140	130	+10
4Q.....	42	36	+ 6	131	177	-46	173	213	-40

+ capital inflow

- capital outflow

SOURCE: DBS *Ibid*

TABLE 45

TRADE IN OUTSTANDING FOREIGN SECURITIES BETWEEN CANADA
AND ALL COUNTRIES

Period	Sales to	Purchases from	Net
(Millions of dollars)			
1963—			
1Q.....	82	77	+ 5
2Q.....	134	113	+21
3Q.....	90	94	- 4
4Q.....	128	110	+18
1964—			
1Q.....	124	129	- 5
2Q.....	151	182	-31
3Q.....	122	126	- 4
4Q.....	128	134	- 6
1965—			
1Q.....	135	146	-11
2Q.....	157	170	-13
3Q.....	137	153	-16
4Q.....	212	214	- 2

+ capital inflow

- capital outflow

SOURCE: DBS *Ibid*

In December 1965, the state of uncertainty which had affected the market was resolved by a new arrangement arrived at between Canada and the United States, at the time of the announcement of further restrictions by the United States upon the outflow of both short and long-term capital. In effect, the exemption of new Canadian long-term issues from the Interest Equalization Tax was extended to include the exemption of such issues from a new quantitative limitation on the acquisition of long-term securities by U.S. non-bank financial institutions. In return for this assurance of access for Canadian borrowers to the U.S. long-term market, the Canadian government undertook that it would purchase Canadian securities in the U.S. market, if this proves necessary, in

TABLE 46
NEW ISSUES OF CANADIAN BONDS SOLD TO UNITED STATES RESIDENTS

Period	Offerings	Deliveries	Undelivered ⁽¹⁾
(Millions of dollars)			
1964—			
1Q.....	91	125	88
2Q.....	238	294	32
3Q.....	309	103	238
4Q.....	345	532	51
1965—			
1Q.....	339	255	135
2Q.....	265	298	102
3Q.....	378	290	190
4Q.....	344	232	302

⁽¹⁾At end of period.
SOURCE: DBS *Ibid.*

TABLE 47
FINANCING OF CANADA'S BILATERAL ACCOUNT WITH THE UNITED STATES

	1962	1963	1964	1965
(Millions of dollars)				
Transactions with U.S. (excluding international financial agencies)				
Current account deficit (exc. gold).....	-1,277	-1,316	-1,800	-2,069
Capital inflow from U.S.....	+1,091	+ 850	+1,755	+ 468
Net amount to be financed by other transactions.....	- 186	- 466	- 45	-1,601
Other transactions				
Current account surplus with rest of world.....	+248	+620	+1,222	+795
Net capital movement from (+) or to (-) rest of world.....	- 62	-162	- 959	+825
New gold production available for export.....	+155	+154	+ 145	+138
Increase (-) in Canadian holdings of gold and foreign exchange.....	-533	- 60	- 86	+ 11
Change in Canada's position with the International Monetary Fund ⁽¹⁾	+378	- 86	- 277	-168
Total financing.....	+186	+466	+ 45	+1,601

⁽¹⁾Improvement (-) in Canadian position represents net provision of resources by Canada to the I.M.F.

order to ensure that the net flow of capital funds to Canada is not in excess of the amount required to meet the needs of the current account in the balance of payments and to keep Canada's reserves within an appropriate range.

The basis for the exemption of long-term Canadian new issues in this way is the recognition on the part of the U.S. authorities of the fact that U.S. current account earnings in Canada almost invariably exceed U.S. capital outflows to Canada. It will be seen from Table 47 that this pattern was strikingly confirmed in 1965, when a U.S. current account surplus with Canada of over \$2 billion was only financed to the extent of less than \$500 million by U.S. capital.

In 1964, a substantial outflow of short-term U.S. capital to Canada, much of it destined ultimately for the Eurodollar market, had been added to the long-term flow to produce a total flow to Canada which nearly, though still not quite, equalled the U.S. current account surplus with Canada. This flow continued into the first quarter of 1965; but in February new balance of payments guidelines were issued to all U.S. banks by the U.S. government which had the objective of limiting new short-term outflows from the United States in 1965 to a small proportion of the total outstanding at the end of 1964. In order to provide assurance that the foreign currency operations of Canadian banks would not be inconsistent with the aims of these guidelines, the Canadian government requested all chartered banks to conduct their foreign currency operations in such a way that the net position of their head offices and Canadian branches vis-à-vis

TABLE 48
OFFICIAL HOLDINGS OF GOLD AND FOREIGN EXCHANGE

End of Period	Gold	U.S. Dollars	Total
(Millions of U.S. dollars)			
1964—January.....	836.7	1,745.7	2,582.4
February.....	849.7	1,692.6	2,542.3
March.....	871.0	1,594.5	2,465.5
April.....	892.2	1,588.9	2,481.1
May.....	910.1	1,599.3	2,509.4
June.....	931.3	1,602.6	2,533.9
July.....	948.8	1,585.1	2,533.9
August.....	969.0	1,606.9	2,575.9
September.....	989.6	1,634.9	2,624.5
October.....	1,001.1	1,685.5	2,686.6
November.....	1,007.4	1,736.0	2,743.4
December.....	1,025.7	1,648.6	2,674.3
1965—January.....	1,036.0	1,632.2	2,668.2
February.....	1,040.6	1,608.1	2,648.7
March.....	1,044.1	1,510.0	2,554.1
April.....	1,044.7	1,521.8	2,566.5
May.....	1,081.4	1,417.3	2,498.7
June.....	1,089.1	1,391.0	2,480.1
July.....	1,096.3	1,395.2	2,491.5
August.....	1,104.0	1,494.0	2,598.0
September.....	1,111.9	1,502.2	2,614.1
October.....	1,123.7	1,520.1	2,643.8
November.....	1,137.5	1,543.6	2,681.1
December.....	1,150.8	1,513.7	2,664.5
1966—January.....	1,112.8	1,449.6	2,562.4
February.....	1,076.5	1,471.1	2,547.6

SOURCE: Department of Finance.

residents of the United States was not reduced below the position which existed on December 31, 1964. The Canadian banks in fact increased their net asset position vis-à-vis U.S. residents during the year. Moreover, they so drew down their assets and increased their liabilities elsewhere in the world that a net credit of over \$400 million accrued to the Canadian balance on capital account as well. This very substantial reversal of earlier movements of short-term funds occurred mainly in the first and second quarters of 1965, after which flows were on a more modest scale.

Two other events which occurred in 1965 had marked effects upon capital flows into and out of Canada. The first was the collapse, in June, of a Canadian finance company whose notes were quite widely held in the United States. A withdrawal by U.S. investors from Canadian finance paper, which had been in progress on a small scale for some months already, was accelerated by this default and continued for the rest of the year, though Canadian finance companies continued to obtain funds abroad in other forms. In August, the announcement of a second major wheat contract with the Soviet Union, to a value of some \$450 million, brought an immediate influx of short-term capital in connection with anticipatory exchange transactions by grain houses; as Table 48 shows, this resulted in strengthening of the reserves, which rose by U.S. \$123 million in that month and the next, and in the exchange rate for the Canadian dollar. This had reached a low point of about 92 U.S. cents in July, but recovered to a high of around 93 U.S. cents in October, remaining in the neighbourhood of this level until the end of the year.

While official holdings of gold and foreign exchange were virtually unchanged over the year as a whole, having decreased by less than U.S. \$10 million, Canada's net creditor position with the International Monetary Fund improved by U.S. \$156 million. Other countries drew the equivalent of U.S. \$183.4 million net in Canadian dollars of which the Fund obtained \$27.5 million by the sale of gold to Canada. Canada also made resources equivalent to U.S. \$35.0 million available through the Fund under the General Arrangements to Borrow.

TABLE 49
CHANGES IN IMF HOLDINGS OF CANADIAN DOLLARS DURING 1965

			U.S. \$ Million
IMF holdings of Canadian dollars at the end of 1964.....			367.5
(minus)	Repurchases by Canada (net).....	—	
	Drawings of Canadian dollars by other countries (net)	183.4	183.4
(plus)	Gold sales to Canada by IMF.....	27.5	
	Borrowings from Canada under the General Arrangements to Borrow.....	35.0	62.5
	Net change during 1965.....		120.9
IMF holdings at the end of 1965.....			246.6

SOURCE: DBS *Quarterly Estimates of The Canadian Balance of International Payments*. Cat. 67-001.

SOURCE AND DISPOSITION OF SAVING

The national saving and investment account offers in capsule form a summary of the net position of the personal, government, business and foreign sectors discussed in detail in foregoing sections of this review. The revenue and expenditures of each of these main sectors can be reduced to a single figure of net income or saving. Each saving estimate is a residual. Disposable personal income minus personal expenditure equals personal saving; business receipts minus business outlays equals business gross saving; revenues and expenditures of governments on the national accounts basis are reduced to a single surplus or deficit figure; and the difference between exports and imports of goods and services is shown as the net foreign balance on current account. The latter can be regarded either as an additional source of real resources (that is, foreign savings) as shown in Table 50, or as part of national investment. The table also shows the elements of savings and investment in 1965, compared with the preceding year. Finally, the table offers a connecting link between the National Accounts analysis upon which most of the earlier discussion has been based and the discussion of capital markets which follows.

TABLE 50
SOURCES OF SAVING
(Millions of dollars)

	1964	1965
Personal Saving.....	2,181	3,098
Business Gross Saving, Total.....	7,051	7,454
(a) Undistributed corporation profits.....	1,252	1,466
(b) Capital consumption allowances and miscellaneous valuation adjustments.....	5,607	6,085
(c) Adjustments on grain transactions.....	110	- 97
(d) Capital assistance.....	82	84
Inventory Valuation Adjustment.....	-121	-330
Government surplus (+) or deficit (-).....	-102	+251
Federal.....	+246	+535
Provincial and Municipal.....	-348	-284
Deficit on current account with non-residents.....	+428	+1,141
Residual error.....	- 45	-183
Total.....	9,392	11,431

DISPOSITION OF SAVING
(Millions of dollars)

	1964	1965
Business gross fixed capital formation ⁽¹⁾	8,968	10,424
Value of physical change in inventories.....	380	824
Residual error.....	+44	+183
Total.....	9,392	11,431

⁽¹⁾ Based on unrevised National Accounts data for 1964 and Public and Private Investment Survey for 1965. For revised data in both years, see Table 26.

SOURCE: DBS *The National Accounts*, 1964, and Department of Finance estimates for 1965.

In 1965, total sources of saving, including savings from abroad (that is, resources drawn from abroad in the form of the current account deficit), increased by about \$2 billion, sufficient on balance to finance a similar increase in business fixed capital formation and inventories. The principal components of the saving increase, in order of their contribution to the total change in sources of funds, were as follows: a personal saving increase of \$900 million; an increase in the use of foreign savings of \$700 million; a change from a deficit to a surplus on government transactions, amounting to \$350 million; and an increase in business gross saving (including the inventory valuation adjustment) of about \$200 million.

While total national saving has been increasing rapidly since the first quarter of 1961, there has been a considerable difference in behaviour of the several components. Personal saving has doubled in the past five years, reaching a level of over \$3,000 million in 1965 compared to \$1,545 million in 1961, and giving rise to a high saving ratio of nine per cent of disposable income. Part of the increase was due to a higher level of farm incomes resulting from a succession of good crops and exceptional wheat marketings. Some increase in the savings ratio often occurs in periods of rapidly advancing incomes, due to the lag of expenditure behind changes in income. This factor may also account for some of the increased saving in more recent quarters, following upon the personal income tax reduction of mid-1965.

Business saving has two principal components: capital cost allowances and net retained earnings after payment of dividends and taxes. Capital cost allowances, as reported in taxation statistics, show a long term upward trend, as the size of the capital stock increases, as well as some short term variation which causes them to increase more rapidly in cyclical expansions. These allowances have increased by approximately \$400 million per year in the past few years. Retained earnings are subject to a great deal of cyclical variation, having quadrupled from a low figure of \$400 million (at seasonally adjusted annual rates) in the first quarter of 1961, to a high figure of \$1,500 million in the first quarter of 1965. Since then they have been relatively stable. Total business saving, or retained cash flow, increased from \$4,900 million in the first quarter of 1961 (seasonally adjusted annual rate), to nearly \$7,600 million in the third quarter of 1965. The five year increase averaged over \$500 million per year, and continued at approximately the same rate into 1965, as capital cost allowances continued to rise. An offsetting inventory valuation adjustment is made against business gross saving in order to make allowance for that part of recorded business profits which arises from the effect of rising prices on inventory values. The 1965 increase in the inventory valuation adjustment was \$200 million.

The government sector position improved in each one of the past five years, slowly at first and then with increasing momentum as total income and expenditure in the remainder of the economy increased. Some tax changes occurred, and the elasticity of certain revenue sources brought increases in revenues which were relatively greater than income changes. At the same time, government costs were increasing, in the forms of wages and materials, and new programmes were being undertaken, as described in the discussions of the government sector and public and private investment. The net result of all of these changes in the government sector was a swing from a combined deficit position of \$1,000 million in 1961 to a combined surplus position, presently estimated on the National Accounts basis at \$251 million in 1965. The Government of Canada had a surplus of over \$500 million in calendar 1965 on this basis, while provincial and municipal governments had a combined deficit approaching \$300 million on the same basis. The swing from a combined government deficit to a combined surplus position in

the past year therefore contributed to the supply of national saving. It permitted governments to have less recourse to capital markets, at the time that private businesses were making greater demands on the markets to finance a higher level of investment.

It will be noted that increased business investments considerably exceeded the increases in the retained cash flow of the business sector. Business capital formation was financed to a greater extent by savings from abroad. As already stated, the net current account deficit increased by approximately \$700 million in 1965. This development in 1965 contrasts with the continued reduction of foreign deficits which had taken place from 1959 to 1964.

CAPITAL MARKETS

The preceding section on sources and disposition of saving indicates that approximately \$2 billion more savings were available for Canadian business investment in 1965 than in 1964. About \$700 million of this increase was attributable to foreign savings, as reflected in the widening of Canada's current account deficit in the balance of payments, and over \$1.4 billion to domestic saving. In contrast to 1964, when the total increase in domestic saving was supplied by businesses and governments, the major part of the 1965 increase came from personal saving. Despite this substantial increase in total saving, it did not keep pace with increasing demands for investment funds. The high rate of economic expansion recorded in 1965 brought with it heavy demands for credit and, in contrast to 1964 when stable credit conditions prevailed, gave rise to higher interest rates and more selective lending policies.

Increases in government revenues relative to expenditures enabled all levels of governments taken together to reduce their demands on the capital market in 1965. Corporate demands on the market, however, to finance heavy expenditures on fixed assets and inventory increased substantially. Net new issues of corporate securities together with increases in bank loans to corporations in 1965 reflect the heavier dependence by corporations on sources other than internal corporate savings. Net new issues of non-financial corporate securities increased by \$264 million to \$988 million, and chartered bank loans to businesses, excluding financial companies, increased by \$698 million to \$5,627 million.

Of particular significance to Canada's capital markets during 1965 were the U.S. balance of payments guidelines announced on February 10, 1965, and the default on its notes of a major Canadian sales finance company in June 1965. The U.S. guidelines, including the revisions in December 1965, as outlined in the section on the Balance of Payments, created some uncertainties initially throughout the capital markets, but the main impact was felt in the short-term market and short-term flows became much less sensitive to covered short-term yield differentials in favour of U.S. investors. The Atlantic Acceptance Corporation default on its obligations, a large proportion of which were held by U.S. investors, was of much more serious consequence to the short-term market. Investor confidence, both at home and abroad, was affected by this event and short-term borrowers, especially sales finance companies, experienced difficulties in raising funds in the market through the balance of 1965. Short-term paper outstanding fell by 25 per cent or by \$350 million to \$1,069 million during the second half of 1965. Partly offsetting the loss of short-term funds to finance companies in this period was an increase by \$170 million or 48 per cent in chartered bank loans to instalment finance companies to a level of \$527

CHART 21

CURRENCY OUTSIDE BANKS AND CHARTERED BANK DEPOSITS

Seasonally Adjusted

Average of Wednesdays - Billions of Dollars

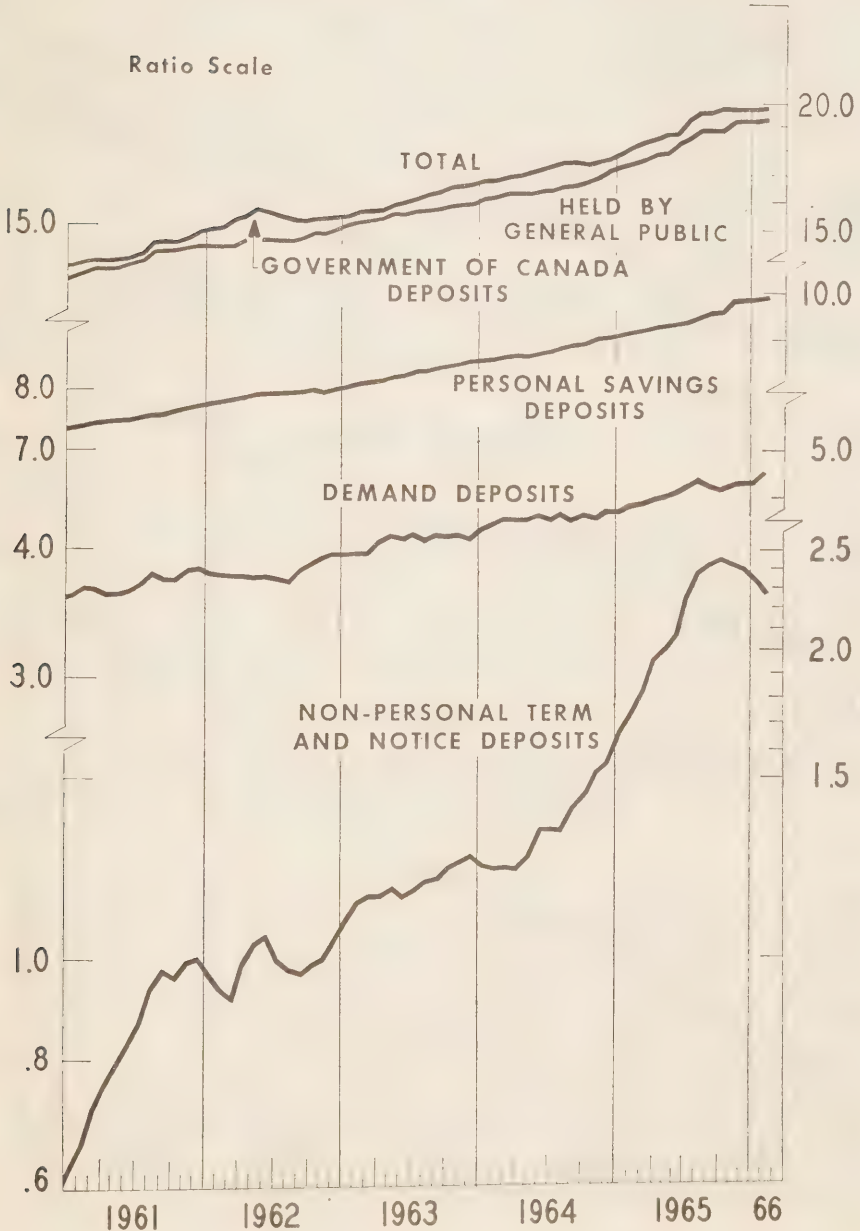
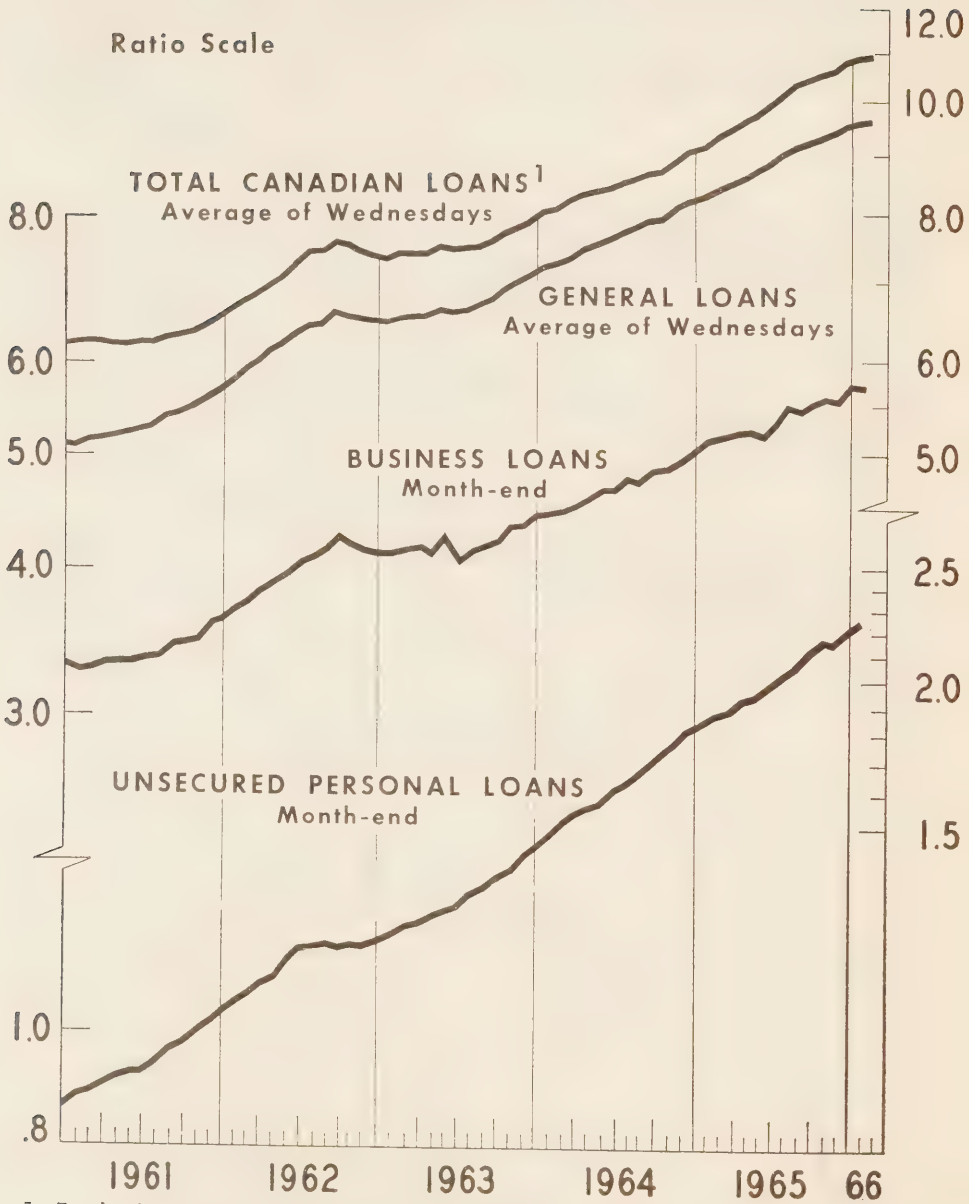


CHART 22

CHARTERED BANK LOANS

Seasonally Adjusted
Monthly - Billions of Dollars



1. Excl. day-to-day, call and C.S.B. loans

million. Net new issues of securities by financial corporations in the last six months of 1965 amounted to \$243 million compared with \$197 million in the same period of 1964.

During 1965 money supply, defined as total currency and chartered bank deposits, increased by 12 per cent compared with a 6 per cent increase in 1964. While this increase in money supply reflected strong demands for credit it also reflected measures taken by the Bank of Canada to counteract the effects of the U.S. guidelines and to maintain confidence during the aftermath of the Atlantic Acceptance Corporation default. The growth in money supply enabled chartered banks to meet a 17 per cent increase in loans without reducing their holdings of Government of Canada securities. There was, however, a decline in the more liquid assets of chartered banks from 32.0 per cent of total assets at the end of 1964 to 30.0 per cent at the end of 1965.

Net new issues of Canadian securities payable in other currencies, excluding short-term paper, declined from a total of \$691 million in 1964 to \$606 million in 1965. Provincial and municipal net new issues payable in other currencies declined by \$196 million while net new issues of corporate securities in other currencies increased by \$110 million in this period. The bulk of these net new issues were sold during the second half of 1965 reflecting in part the existence of a significantly wider long-term yield differential between U.S. and Canadian bonds in this period than in the first half of the year.

DEMAND AND SUPPLY OF FUNDS THROUGH THE CAPITAL MARKETS

Federal Government

Continued improvements in the federal government's financial position during 1965, coupled with a healthy cash position, enabled the federal government to retire on balance \$52 million of its outstanding securities. In 1964 there was a \$457 million increase in net new securities. Taking into consideration changes in both Bank of Canada and Government Account holdings of Government of Canada securities, there was a large reduction in the net impact on the capital market of federal government borrowing in 1965 compared with 1964, which made room for other borrowers in the public and private sectors.

In addition to the federal government's influence on the capital markets as a net borrower or net supplier of funds, considerable influence is exerted on the composition and holdings of outstanding obligations through its debt management operations. A full description of federal government debt operations for the fiscal year ending March 31, 1966, begins on page 104.

The Provincial and Municipal Governments

In 1965 the net new issues of direct and guaranteed bonds of the provinces and municipalities were reduced from the 1964 level. This reduction was particularly significant in the second half of 1965 for provincial bonds and throughout 1965 for municipal bonds. The total net new issues of provincial bonds in 1965 amounted to \$646 million compared to \$942 million in 1964. Net new issues of municipal bonds in 1965 were \$183 million or approximately 48 per cent of the net new issues in 1964. During 1965 both the provincial and municipal governments reduced their borrowings in capital markets outside Canada compared to the previous year. In 1964 the total net new issues in currencies other than Canadian dollars of provincial and municipal bonds were \$358 million and \$117 million respectively. By comparison in 1965, net new issues in foreign currencies had been reduced to \$252 million and \$25 million respectively for the provinces and municipalities.

TABLE 51
NET CHANGES IN SECURITIES⁽¹⁾ AND BANK LOANS⁽²⁾ OUTSTANDING FOR CALENDAR YEARS
(Millions of dollars)

	1962	1963	1964	1965	1964		1965	
					1st half	2nd half	1st half	2nd half
Government of Canada securities.....	801	827	457	-52	-289	746	-529	477
Provincial governments								
Securities ⁽³⁾	709	899	941	646	560	382	499	147
Bank loans.....	-16	18	-18	29	-20	2	-17	46
Sub-total.....	693	917	923	675	540	384	482	193
Municipal governments								
Securities.....	243	302	395	183	228	167	77	106
Bank loans.....	-3	57	62	158	1	61	42	116
Sub-total.....	240	359	457	341	229	228	119	222
Total Governments	1,734	2,103	1,837	964	480	1,358	72	892
Private Canadian borrowers								
Corporate bonds.....	424	583	745	1,068	334	411	559	509
Other bonds.....	8	29	11	40	10	1	18	22
Corporate stocks.....	336	-54	328	376	134	376	213	162
Commercial paper.....	237	144	339	-297	400	-63	61	-359
Bank loans to business and instalment finance companies.....	526	334	572	925	452	120	581	344
Call and day-to-day loans.....	138	-84	5	56	-78	83	-36	92
Other bank loans.....	225	234	417	661	161	256	417	244
Total Private	1,894	1,186	2,417	2,827	1,413	1,002	1,813	1,014
Grand Total	3,628	3,289	4,254	3,793	1,893	2,360	1,885	1,906

⁽¹⁾Includes foreign pay issues.

⁽²⁾Excludes foreign bank loans.

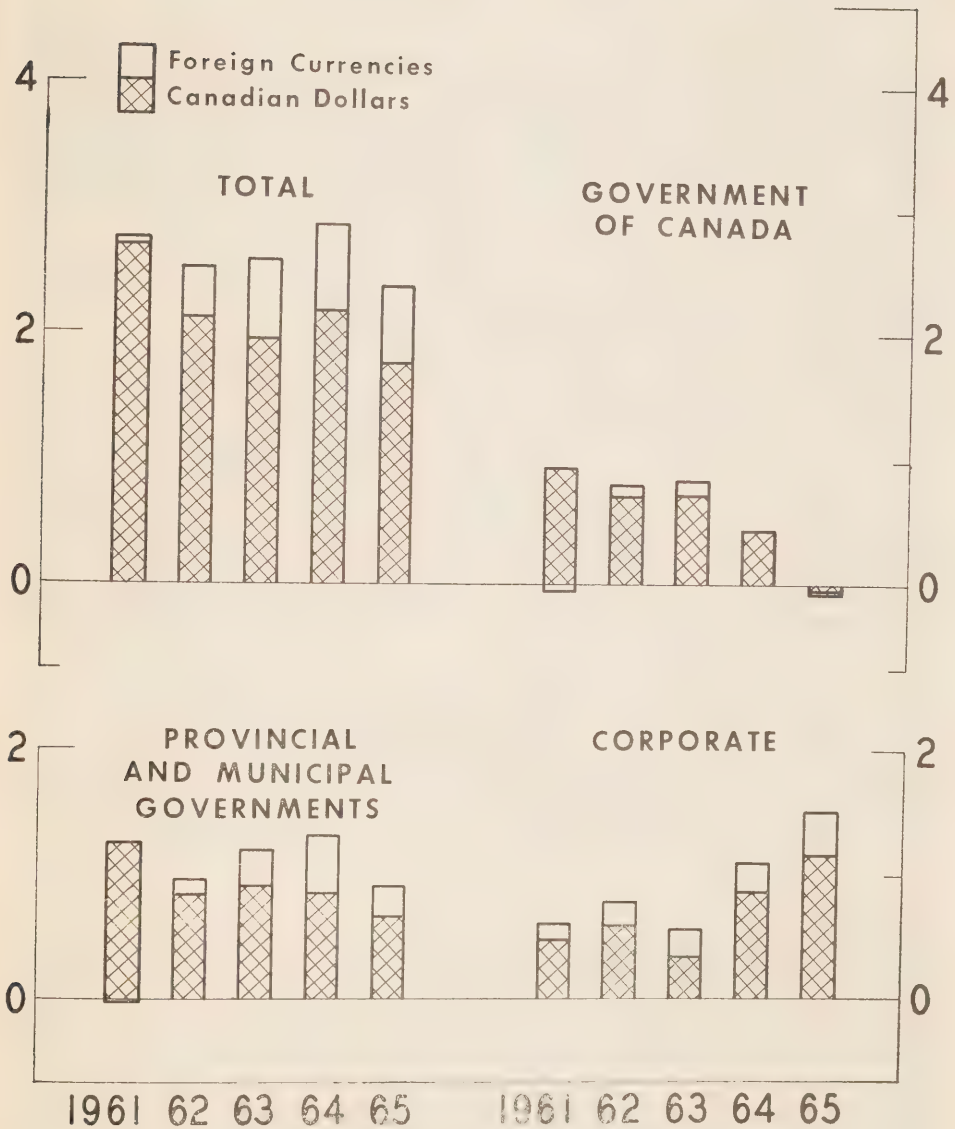
⁽³⁾Includes securities guaranteed by provinces.

⁽⁴⁾Includes loans to grain dealers, personal loans, loans to farmers, loans to institutions, loans for insured mortgages and for Canada Savings Bonds.
Source: Bank of Canada.

CHART 23

NET NEW ISSUES OF SECURITIES

Billions of Dollars



On the other hand, there was during 1965 an increase in bank loans to both the provincial and municipal governments. Bank loans to the provinces increased from \$30 million at the end of 1964 to \$59 million by the end of 1965. At the same time bank loans to the municipalities increased from \$363 million to \$521 million by the end of 1965. A significant portion of this municipal borrowing was in anticipation of loans from the Municipal Development and Loans Board.

Corporations

A more rapid increase in business investment outlays than in business savings during 1965 caused businesses to rely more heavily on other sources of funds than in the previous year. As shown in Table 50 business gross fixed capital formation reached about \$10.4 billion in 1965, an increase of \$1.4 billion over the 1964 level, while business gross saving increased by about \$400 million. Within the business sector, corporate savings (retained earnings after tax plus corporate capital cost allowances) increased by approximately \$500 million, from \$4.4 billion in 1964 to an estimated \$4.9 billion in 1965, which is equal to about one third of the increase in corporate investment outlays during 1965. A significant increase in the level of non-farm inventories over 1964 levels had the effect of adding further strain on corporate financial resources.

Additional sources of funds tapped by corporations during the year were mainly increases in net new issues of securities and bank loans. In Table 51 net new issues of corporate bonds and stocks by corporations in 1965 amounted to \$1,444 million compared with \$1,068 million in 1964, which is equal to a 35 per cent increase over that year. A \$325 million or 44 per cent increase in net new issues of corporate bonds from \$743 million in 1964 to \$1,068 million in 1965 was responsible for the largest proportion of the overall increase in net new corporate securities. About 30 per cent of the net new corporate bond issues were in other currencies compared with 28 per cent in 1964, reflecting a somewhat higher volume of net new corporate bond issue sales abroad. An increase of \$48 million or about 15 per cent in net new issues of equity securities, preferred and common stock, took place in 1965.

As a result of the U.S. guidelines and the Atlantic Acceptance Corporation default on its obligations, all corporations, and particularly financial corporations, were forced to rely less on the money market for short-term funds in 1965 than in 1964. Offsetting this, and providing additional funds was the substantial increase in chartered bank business loans to corporations and to finance companies. By the end of 1965 these two categories of loans had increased by 14 per cent and 76 per cent respectively to \$5,627 million and \$527 million.

Mortgage Credit

Lending institutions, Central Mortgage and Housing Corporation, and private, committed \$3,015 million on mortgages for new and existing residences and other property in 1965. The increase in total commitments was 12 per cent, less than half the 26 per cent increase in each of the two preceding years. (See Table 52.) There was a deceleration in the commitment of funds to the housing sector in the second half of 1965. This reflected, amongst several factors, the very high rate of conventional mortgage approvals a year ago, physical shortages in the construction field, stiffening financial conditions following the mid-year disturbances in Canadian financial markets and the rise in interest rates in North America in the latter half of the year.

The winter housebuilding incentive scheme, accompanied by the provision of mortgage funds through CMHC, was successfully repeated in the winter of 1965-66. CMHC once again temporarily relaxed existing policy by making direct loans available to merchant builders without the requirement that the houses must have been pre-sold. Preliminary information indicates that applications received under the 1965-66 programme are 2 per cent down from the corresponding total of last winter. Applications approved in 1964-65 totalled 33,579 dwelling units.

Reflecting the general uptrend in interest rates in North America, Canadian conventional mortgage rates on prime property rose from $6\frac{3}{4}$ -7 per cent early in 1965 to $7\frac{1}{2}$ -8 per cent, and in some cases higher, by the end of the year. Early in 1966 the NHA rate was raised from $6\frac{1}{4}$ per cent to $6\frac{3}{4}$ per cent.

TABLE 52

MORTGAGE LOAN COMMITMENTS BY CENTRAL MORTGAGE AND HOUSING CORPORATION AND PRIVATE INSTITUTIONS

	1961	1962	1963	1964	1965
	(Millions of dollars)				
Mortgage Loans Approved under National Housing Act					
CMHC direct					
Single detached.....	225	152	253	312	367
Apartments and other.....	46	20	49	65	95 ⁽¹⁾
Sub-total.....	271	172	302	377	462
Approved Lenders					
Single detached.....	321	316	281	178	129
Apartments and other.....	132	96	104	175	191
Sub-total.....	453	412	385	353	320
Total.....	724	584	687	730	782
Conventional Mortgage Approvals					
New residences					
Single detached.....	174	187	250	294	356
Apartments and other.....	158	264	402	518	547
Existing residences					
Single detached.....	215	256	306	443	539
Apartments and other.....	85	102	124	197	210
Commercial and other.....	298	311	373	507	581
Total conventional.....	930	1,120	1,455	1,959	2,233
Grand Total	1,654	1,704	2,142	2,689	3,015
of which:					
Single residences new.....	720	655	784	784	852
Apartment residences, etc. new.....	336	380	555	758	833
Total residential new.....	1,056	1,035	1,339	1,542	1,685

⁽¹⁾In addition to direct CMHC loans which refer only to new construction, CMHC also made rental loans for \$22 million for existing multiple dwellings.

SOURCE: Central Mortgage and Housing Corporation.

Consumer Credit

Last year, buoyed by a 9.6 per cent increase in personal income after taxes from the corresponding first nine months of calendar year 1964, personal spending on goods and services rose by 7.3 per cent. There was also a substantial gain in personal holdings of financial assets. In an environment of confidence about future prospects, persons increased their short-term liabilities in 1965 to a level 13.9 per cent above that of a year earlier.

Through most of 1964 consumer credit expanded at an annual rate between 14.5 and 16.5 per cent. In the first half of 1965 it decelerated slightly, then rose again to an annual rate of 16.1 per cent in the third quarter.

TABLE 53
CONSUMER CREDIT

Amount outstanding seasonally adjusted	1964				1965			
	March	June	Sept.	Dec.	March	June	Sept.	Dec.
	(Millions of dollars)							
Chartered banks.....	1,497	1,672	1,736	1,793	1,848	2,064	2,150	2,186
Sales finance companies.....	886	996	1,038	1,035	1,023	1,099	1,136	1,140
Consumer loan companies.....	796	837	866	904	925	975	994	1,029
Quebec Savings Banks.....	14	14	15	15	17	18	17	16
Life insurance companies.....	388	392	396	398	400	402	405	407
Retail dealers ⁽¹⁾	620	626	643	727	668	667	696	794
Sub-total.....	4,201	4,537	4,694	4,872	4,881	5,225	5,398	5,572
Other retail ⁽²⁾	426	435	445	479	430	438	457	482
Credit unions and caisses.....	n.a.	n.a.	n.a.	840	n.a.	n.a.	n.a.	n.a.

n.a. not available.

⁽¹⁾Includes department stores, furniture and appliance dealers and the instalment credit of motor vehicle dealers.

⁽²⁾Includes oil companies credit cards.

SOURCES: Bank of Canada, Department of Insurance, Department of Finance, DBS, and Department of Agriculture.

Sources and Application of Funds—Private Financial Institutions

A consolidation of the assets and liabilities of deposit-accepting institutions is shown in Tables 54 and 55, and the percentage distribution of these assets and liabilities in Tables 56 and 57. The deposit-accepting institutions covered are the chartered banks, Québec savings banks, trust companies and mortgage loan companies; caisses populaires and credit unions are excluded only because quarterly data on their operations is not available. Term liabilities of deposit-accepting institutions grew rapidly in 1965, in continuation of a trend which was apparent in 1964. In particular, the total of non-chequable, term and notice deposits and debentures and certificates rose much faster than the total of notes and chequable deposits. As a result, "other deposits and deposit-type liabilities" were 21.1 per cent of total liabilities at the end of 1965 as compared with 18.5 per cent and 16.1 per cent at December 31, 1964 and December 31, 1963 respectively.

This increase in term liabilities enabled deposit-accepting institutions to meet strong demands for loans and mortgages. Their loans and holdings of mortgages expanded by \$1,972 million and \$983 million respectively in 1965, as compared with corresponding increases of \$1,056 million and \$589 million in 1964. Because of these changes, the proportion of their assets held in the form of loans and mortgages rose to 50.1 per cent in 1963, to 54.1 per cent in 1964 and to 58.3 per cent in 1965. The highest rate of growth occurred in holdings of

mortgages, which rose from 15.4 per cent of total assets at December 31, 1964 to 17.1 per cent at the end of 1965; this increase reflected both the high demand for mortgages and the attraction for deposit-accepting institutions of the high rates of interest on mortgages.

To finance the expansion of their loans and holdings of mortgages, deposit-accepting institutions used the additional funds made available by depositors and purchasers of their certificates and debentures; they also refrained from making any substantial additions to their holdings of government bonds even though net new issues of federal, provincial and municipal bonds totalled \$775 million for the year. As a result, government bonds fell from 33.5 per cent to 30.1 per cent of their total assets during 1965. In this regard, deposit-accepting institutions were continuing a trend already in force in 1964 when their holdings of government bonds showed little change and when the proportion of such bonds fell from 36.1 to 33.5 per cent of total assets.

With the increase in the proportions of their assets held in the form of loans and mortgages to over 55 per cent and the decline in their holdings of government bonds to 30.1 per cent, deposit-accepting institutions during 1965 approached a point where further extensions in their loans and holdings of mortgages had become more dependent upon the expansion of their deposits and other deposit-type liabilities. To some extent, this higher proportion of assets held in loans and mortgages had been made possible because of the increases in the proportion of their liabilities accounted for by term and notice deposits. This proportion cannot, however, be increased indefinitely without affecting the cash flows and liquidity of these institutions.

Table 54 indicates that the institutions covered by this analysis increased their loans to governments, businesses and individuals by approximately \$2 billion in 1965 and their loans against mortgages by approximately \$1 billion. Holdings of treasury bills, bonds, equities and other securities remained virtually unchanged at the end of the year.

The main private financial institutions not covered by the above analysis are the insurance companies and pension funds. These institutions are mainly concerned with gathering savings on a contractual basis and are among the most important investors in long-term securities and other longer term obligations in Canada. Life insurance companies and trustee pension funds account for the bulk of the total assets in this group.

During 1965, the Canadian assets of sixteen life insurance companies⁽¹⁾, which account for about 84 per cent of total net premium income in Canada, increased by about \$600 million. Funds financing this increase arose mainly out of insurance operations in Canada (net premium income) together with about \$44 million transferred from earnings abroad. The sixteen life insurance companies were net sellers of government securities during 1965. Portfolio investments in Government of Canada bonds were reduced by \$77 million and holdings of provincial and municipal bonds were reduced by \$16 million and \$4 million respectively. Funds obtained from disinvestment in these securities helped in part to finance the increase in holdings of other securities. Insurance companies, like the deposit-accepting institutions analyzed above, have been increasing the proportion of their assets held in the form of mortgage loans and sales agreements. In 1965 the net increase in assets held in this form totalled \$390 million. Net investment in corporate bonds amounted to \$191 million and net investment in investment stocks amounted to \$48 million.

⁽¹⁾Statistical data up to the end of June 1965 are based upon cash transactions by 12 insurance companies representing about 74 per cent of net premium income for all companies and thereafter the data relate to 16 insurance companies representing about 84 per cent of such net premium income. The figures quoted will therefore tend to understate asset increases.

TABLE 54
ASSETS OF DEPOSIT-ACCEPTING INSTITUTIONS⁽¹⁾
(In millions of dollars)

	1963			1964			1965		
	31st December	31st March	30th June	30th September	31st December	31st March	30th June	30th September	31st December ⁽²⁾
Loans:									
Canadian day to day loans.....	253	163	193	258	253	167	213	265	251
Call and short loans.....	145	93	127	120	150	165	154	203	168
To instalment finance companies.....	302	279	295	243	299	288	357	425	527
To other businesses.....	5,186	5,329	5,658	5,734	5,762	6,058	6,480	6,624	6,850
To individuals.....	2,254	2,254	2,381	2,408	2,680	2,710	2,869	2,924	3,050
To non-profit institutions.....	234	232	241	262	246	246	268	260	285
To provinces.....	48	33	28	54	30	14	13	35	59
To municipalities.....	301	374	302	303	363	465	405	446	521
Mortgages.....	8,723	8,731	9,225	9,367	9,779	10,113	10,759	11,191	11,751
Government bonds	3,302	3,421	3,573	3,725	3,891	4,094	4,344	4,619	4,874
Govt. of Canada treasury bills.....									
Govt. of Canada bonds.....	1,778	1,719	1,662	1,725	1,756	1,797	1,747	1,824	1,880
Provincial bonds.....	5,655	5,651	5,553	5,467	5,562	5,532	5,687	5,581	5,580
Municipal bonds.....	653	666	655	630	655	677	675	656	625
	445	473	489	482	480	506	502	488	500
Other securities	8,531	8,509	8,359	8,304	8,435	8,512	8,611	8,529	8,555
Short term notes ⁽³⁾									
Industrial Development Bank debentures and stock.....	112	240	267	236	159	315	343	260	250
Other corporate bonds.....	184	187	194	200	213	219	226	229	240
Stocks.....	709	738	750	757	753	761	795	815	830
	117	119	125	121	124	124	138	135	140
Assets abroad (net).....	1,122	1,284	1,336	1,314	1,249	1,419	1,502	1,439	1,460
All other assets.....	102	73	-9	-20	101	168	30	3	75
	1,854	1,815	1,622	1,572	1,796	1,724	1,775	1,737	1,795
Total.....	23,634	23,833	24,106	24,262	25,269	26,030	27,021	27,518	28,540

⁽¹⁾Excluding credit unions and caisses populaires.

⁽²⁾Estimated.

⁽³⁾Of sales finance and other companies.

SOURCE: DBS, and Bank of Canada.

TABLE 55
LIABILITIES OF DEPOSIT-ACCEPTING INSTITUTIONS⁽¹⁾
(In millions of dollars)

	1963			1964			1965		
	31st December	31st March	30th June	30th September	31st December	31st March	30th June	30th September	31st December ⁽²⁾
Bank of Canada Notes.....	1,886	1,845	1,916	1,920	2,026	1,938	2,053	2,071	2,153
Chequeable deposits of:									
Government of Canada.....	969	833	829	430	773	683	674	518	804
Provincial governments ⁽³⁾	183	224	208	170	204	267	360	344	344
Other financial institutions.....	88	112	103	108	192	120	143	156	165
Other Canadian residents ⁽⁴⁾	14,405	14,290	14,408	14,692	14,913	14,937	15,371	15,763	16,125
Total Chequeable Deposits.....	15,645	15,459	15,548	15,400	16,012	16,007	16,548	16,781	17,438
Other deposits and deposit-type liabilities:									
Non-chequeable demand deposits.....	489	579	609	642	710	733	767	748	760
Term deposits, G.I.C.'s, debentures and in-	2,124	2,267	2,367	2,396	2,458	2,723	2,832	2,925	3,015
stalment certificates.....	1,191	1,224	1,369	1,445	1,505	1,818	2,031	2,186	2,044
Other notice deposits.....									
Total Non-Chequeable and Time De-	3,804	4,070	4,345	4,483	4,673	5,274	5,630	5,859	6,019
posits.....									
Deposit and deposit-type liabilities to non-									
residents.....	231	287	211	227	221	233	215	196	200
Total deposit and deposit-type liabilities.....	21,566	21,661	22,020	22,030	22,932	23,452	24,446	24,907	25,810
Shareholders' equity.....	1,913	1,651	1,658	1,679	1,708	1,743	1,761	1,799	1,880
All other liabilities.....	455	521	428	553	629	835	814	812	850
Total.....	23,634	23,833	24,106	24,262	25,269	26,030	27,021	27,518	28,540

⁽¹⁾Excluding credit unions and caisses populaires.

⁽²⁾Estimated.

⁽³⁾Includes non-chequeable deposits.

⁽⁴⁾Includes demand and savings deposits at chartered banks and chequeable demand deposits at trust and loan companies.

SOURCE: DBS, and Bank of Canada.

TABLE 56
ASSETS OF DEPOSIT-ACCEPTING INSTITUTIONS
(Percentage distribution)

	1964				1965			
	31st December	31st March	30th June	30th September	31st December	31st March	30th June	30th September
Loans:								
Canadian day-to-day loans.....	1.07	0.68	0.80	1.06	1.00	0.64	0.79	0.96
Call and short loans.....	0.61	0.39	0.53	0.49	0.59	0.63	0.57	0.74
To Instalment Finance Companies.....	1.28	1.17	1.22	1.00	1.18	1.11	1.32	1.54
To other businesses.....	21.94	22.36	23.47	23.63	22.80	23.27	23.98	24.07
To individuals.....	9.54	9.35	9.88	9.92	10.53	10.41	10.62	10.67
To non-profit institutions.....	0.90	0.97	1.00	1.02	1.04	0.95	0.99	0.98
To provinces.....	0.20	0.14	0.12	0.22	0.12	0.05	0.05	0.13
To municipalities.....	1.27	1.57	1.25	1.25	1.44	1.79	1.50	1.62
	36.91	36.63	38.27	38.61	38.70	38.85	39.82	40.67
Mortgages.....	13.97	14.35	14.82	15.35	15.40	15.73	16.08	16.79
Government bonds								
Government of Canada treasury bills.....	7.52	7.21	6.89	7.11	6.95	6.90	6.47	6.63
Government of Canada bonds.....	23.93	23.71	23.04	22.53	22.01	21.25	21.05	20.28
Provincial bonds.....	2.76	2.79	2.72	2.60	2.51	2.60	2.50	2.31
Municipal bonds.....	1.88	1.98	2.03	1.99	1.90	1.94	1.86	1.77
	36.10	35.70	34.68	34.23	33.45	32.70	31.87	30.99
Other securities								
Short-term notes.....	0.47	1.01	1.11	0.97	0.63	1.21	1.27	0.94
Industrial Development Bank debentures and stock.....								
Other corporate bonds.....	0.78	0.78	0.80	0.82	0.84	0.84	0.84	0.83
Stocks.....	3.00	3.10	3.11	3.12	2.98	2.92	2.94	2.96
	0.50	0.50	0.52	0.50	0.49	0.48	0.51	0.49
	4.75	5.39	5.54	5.41	4.94	5.45	5.22	5.23
Assets abroad (net).....	0.43	0.31	-0.04	-0.08	0.40	0.65	0.11	0.01
All other assets.....	7.84	7.62	6.73	6.48	7.11	6.62	6.57	6.31
Total.....	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

SOURCE: DBS, and Bank of Canada.

TABLE 57
LIABILITIES OF DEPOSIT-ACCEPTING INSTITUTIONS⁽¹⁾
(Percentage distribution)

	1963	1964				1965			
	31st December	31st March	30th June	30th September	31st December	31st March	30th June	30th September	31st December
Bank of Canada Notes.....	7.98	7.74	7.95	7.91	8.02	7.45	7.60	7.53	7.54
Chequeable deposits of:									
Government of Canada.....	4.10	3.50	3.44	1.77	3.06	2.62	2.49	1.88	2.82
Provincial Governments.....	.77	.94	.86	.70	.81	1.03	1.33	1.25	1.21
Other Financial Institutions.....	.37	.47	.43	.45	.43	.46	.53	.57	.58
Other Canadian residents.....	60.95	59.96	59.77	60.56	59.02	57.38	56.89	57.28	56.50
Total Chequeable Deposits.....	66.20	64.86	64.50	63.48	63.37	61.49	61.24	60.98	61.11
Other deposits and deposit-type liabilities:									
Non-chequeable demand deposits.....	2.07	2.43	2.53	2.65	2.81	2.82	2.84	2.72	2.66
Term deposits, G.I.C.'s, debentures and in-	8.99	9.51	9.82	9.88	9.73	10.46	10.48	10.63	11.27
stalment certificates.....	5.04	5.14	5.63	5.96	5.96	6.98	7.52	7.94	7.16
Other notice deposits.....									
Total Non-chequeable and Time De-	16.10	17.08	18.02	18.48	18.50	20.26	20.84	21.29	21.09
posits.....									
Deposits and deposit-type liabilities to non-	.98	1.20	.88	.94	.87	.90	.80	.71	.70
residents.....									
Total deposit and deposit-type liabilities....	91.25	90.89	91.35	90.80	90.75	90.10	90.47	90.51	90.44
Shareholders' Equity.....	6.82	6.93	6.88	6.92	6.76	6.70	6.52	6.54	6.58
All Other Liabilities.....	1.93	2.19	1.64	2.28	2.49	3.20	3.01	2.95	2.98
Total.....	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

⁽¹⁾See footnotes Table 55.

SOURCE: DBS, and Bank of Canada.

FEDERAL GOVERNMENT DEBT OPERATIONS

(Fiscal year ending March 31, 1966)

In the budget speech of April 26, 1965, a budgetary deficit of \$300 million, a non-budgetary deficit of \$225 million assuming no Exchange Fund charges, and total cash requirements of \$525 million were forecast. Government of Canada marketable securities, excluding regular weekly issues of three month and six month treasury bills, scheduled to mature within the fiscal year 1965-66 amounted to \$1,705 million.

As a result of a higher rate of economic expansion than had been anticipated, federal government budgetary revenues are now expected to exceed the original forecast by almost \$300 million while budgetary expenditures are expected to remain close to original estimates. The resulting net decrease in the budgetary deficit is partially offset by a significant increase in the original non-budgetary deficit estimate. Part of this increase has resulted from Exchange Fund transactions. Total cash requirements, before debt changes, are expected to be about \$100 million lower than the original estimate made in the April 1965 budget.

There were several changes in the federal government's unmatured debt during the past fiscal year, the net effect of which produced an increase in such debt amounting to \$160 million. The bulk of this increase as shown in Table 58 came from net sales of Canada Savings Bonds which amounted to \$205 million. Outstanding marketable securities, excluding Treasury Bills, declined by \$155 million. The increase in cash provided by the net increase in unmatured debt helped to meet a good portion of the federal government's cash requirements. A decline in the federal government's cash balance from \$681 million at the end of March, 1965, to about \$600 million at the end of March, 1966, will finance the balance of the federal government's cash requirements.

TABLE 58
SUMMARY OF PROJECTED CHANGES IN GOVERNMENT SECURITIES
OUTSTANDING FOR THE YEAR ENDING MARCH 31, 1966.

	(Millions of dollars)	
	Increase	Decrease
Treasury Bills—weekly.....	10	
Canada Savings Bonds.....	205	
Unemployment Insurance Fund.....	100	
Marketable Securities.....		155
	315	155
	-155	
	160	

Federal government cash balances throughout the 1965-66 fiscal year have generally been high enough to allow considerable flexibility in formulating debt management policies. The overriding consideration in debt management during this period has been the desire to complement monetary and fiscal policies. Subordinated to this consideration but nevertheless playing important roles in determining the size and frequency of issues, maturity lengths, coupon rates and prices have been the general debt management aims of achieving a broader market, of extending maturity lengths when possible, and of providing greater flexibility in future debt management operations.

During the first quarter of calendar 1965, Canada's bond and money markets became unsettled. The United States' balance of payments programme, introduced on February 10, 1965, which asked U.S. banks, financial institutions and other businesses to reduce voluntarily their foreign lending and investment activities, had a particularly unsettling effect on Canada's bond and money markets. Also having a bearing on general market conditions at this time was the build-up of a heavy calendar of new corporate and provincial bond issues. On April 1, 1965 \$200 million Government of Canada $4\frac{1}{4}$ per cent bonds matured. It was decided to refund \$175 million only of the maturing issue. The refunding issue had a maturity length of 2 years 6 months and was an addition to the outstanding $3\frac{3}{4}$ per cent bonds due October 1, 1967. Details of this and other new Government of Canada bond issues floated during the fiscal year are shown in Table 59.

In the weeks following the April 1 refunding issue, upward pressures on short-term rates became increasingly evident, reflecting in part the effects of the U.S. guidelines. Upward adjustments in long-term yields also occurred when the previously anticipated heavy calendar of new provincial and corporate bond issues began to materialize. \$400 million Government of Canada $3\frac{1}{2}$ per cent bonds matured on July 1, 1965. This issue was refunded in part by a new \$325 million bond issue in three tranches, ranging in maturity length from ten months to five years and open as to amount in each maturity.

In the intervening period between the July 1 bond issue and the September 1 issue a sequence of events brought about a further change in monetary conditions. A major disturbance occurred on June 14, 1965, when Atlantic Acceptance Corporation defaulted on its obligations. This event had a severe impact on the financial system in general and on Canada's rapidly growing money market in particular. Despite the sizeable increases in money supply which occurred as a result of Bank of Canada attempts to meet the situation in the money market, upward pressures on interest rates developed. The mid-year review of capital spending intentions indicated an 18.6 per cent increase over 1964 expenditures instead of the original 13.7 per cent estimate. It was recognized that realization of these capital spending intentions could create strains on the economy and lead to a further widening in the balance of payments deficit on current account. Cost pressures began to appear in the construction industry. An announcement was made by the Prime Minister at the beginning of August to the effect that the Government was deferring certain construction projects in order to alleviate pressures of demand on the construction industry. Heavy demands for funds were mainly responsible for the further increase in yields which occurred during this period.

On September 1, 1965, \$450 million $3\frac{3}{4}$ per cent Government of Canada bonds were due to mature. The full amount of \$450 million was refunded. As shown in Table 59, the new refunding issue was in three tranches including the first long-term maturity of the year—\$100 million $5\frac{1}{4}$ per cent bonds due May 1, 1990 and having a maturity length of 24 years 8 months.

The outlook for the Canadian economy changed little over the remaining months of the year. Consumer and business opinion continued to be decisively optimistic. In choosing refunding issues to meet \$325 million $3\frac{1}{2}$ per cent bonds due December 1, 1965 and \$330 million $3\frac{1}{2}$ per cent bonds due February 1, 1966, however, several other important factors also had to be considered. In the three week period immediately preceding the announcement of the December 1 refunding a substantial upward adjustment in Canadian bond yields took place in all maturities. Increasing concern that Canadian exemption from the U.S. Interest Equalization Tax and her special position under the U.S. guidelines were endangered, a weaker U.S. bond market and a relatively poor response to

TABLE 59

DETAILS OF NEW ISSUES AND RETIREMENTS OF GOVERNMENT OF CANADA
DIRECT AND GUARANTEED BONDS FROM JANUARY 1, 1965 TO MARCH 31, 1966

Date of Issue	Maturing Bonds	Amount (\$ millions par value)	New Bonds	Amount (\$ millions par value)	Net Change in Amount Outstanding	Term of New Bonds	Price at Issue (%)	Yield at Issue (%)
1965								
Jan. 29 ⁽¹⁾	3½% Sept. 1, 1965	175	—	—	-175	1 yr. 3 mos.	99.20	4.16
Feb. 1	3½% Feb. 1, 1965	415	3½% May 1, 1966 5% Oct. 1, 1973	175 275	+ 35 -125	8 yrs. 8 mos.	100.00	5.00
Mar. 25	3½% Sept. 1, 1965	125	—	—	—	—	—	—
April 1	4½% April 1, 1965	200	3½% Oct. 1, 1967	175	- 25	2 yrs. 6 mos.	98.55	4.37
April 15	5½% Oct. 15, 1987 ⁽¹⁾	3	—	—	- 3	—	—	—
July 1	3½% July 1, 1965	400	3½% May 1, 1966 4½% June 1, 1967 5% July 1, 1970	150 50 125	- 75	1 yr. 10 mos. 1 yr. 11 mos. 5 years	99.33 99.50 99.75	4.32 4.52 5.06
Sept. 1	3½% Sept. 1, 1965	450	3½% Sept. 1, 1966 5½% Oct. 1, 1969 5½% May 1, 1990	205 145 100	0	1 year 4 yrs. 1 mo. 24 yrs. 8 mos.	99.00 100.75 98.50	4.79 5.29 5.36
Oct. 15	5% Oct. 15, 1987 ⁽¹⁾	3	—	—	- 3	—	—	—
Dec. 1	3½% Dec. 1, 1965	325	4% Dec. 15, 1966 5½% April 1, 1969 5½% Oct. 1, 1975	150 100 50	- 25	1 yr. ½ mo. 3 yrs. 4 mos. 9 yrs. 10 mos.	98.85 100.25 100.00	5.15 5.41 5.50
Totals (Calendar 1965)		2,095		1,700	-396			
1966								
Jan. 3	C.N.R. 3% Jan. 3, 1966	35	—	—	- 35	1 yr. 2 mos.	98.70	5.16
Feb. 1	3½% Feb. 1, 1966	330	4% April 1, 1967 5% July 1, 1970 5½% Aug. 1, 1980	170 50 80	- 30	4 yrs. 5 mos. 14 yrs. 6 mos.	98.50 100.00	5.38 5.50
Totals (Fiscal year 1965-66)		1,745		1,550	-195			

⁽¹⁾ This issue was made in New York and bonds of this issue are subject to partial redemption at par for the sinking fund on each interest payment date, commencing with April 15, 1965, in a principal amount equal to U.S. \$2,500,000.

new provincial, municipal and corporate bond issues brought to the market in this period all contributed to the widespread expectations that higher bond yields were in the offing. In the light of these developments it was considered desirable to avoid adding to market difficulties. Thus, only \$300 million of the maturing \$325 million $3\frac{1}{2}$ per cent bonds due December 1, 1965 was refunded and the Bank of Canada agreed to subscribe for a minimum of \$100 million of the new issue. Also, investors were offered the choice of three maturities—two short-term and one medium-term, as described in Table 59. The issue was priced on the market to maintain market stability.

Shortly after the December 1, 1965 refunding issue, a revised Balance of Payments programme was announced by the U.S. Government which set out guidelines to non-financial U.S. corporations with respect to their direct investments abroad, including those in Canada. It was reaffirmed, however, that Canadian borrowers would continue to have unlimited access, exempt from the Interest Equalization Tax, to the U.S. market for new issues of long-term securities. Early in December the U.S. Federal Reserve Board approved an increase in the discount rate from 4 per cent to $4\frac{1}{2}$ per cent. The Bank of Canada also increased its Bank Rate from $4\frac{1}{4}$ per cent to $4\frac{3}{4}$ per cent and announced that the policy of the Bank would continue to be directed to making provision for the overall credit needs of sound economic growth.

The reaction in the Canadian bond market to these developments was small, in part because of the strong technical position which had emerged over the preceding weeks' bearish atmosphere, and in part because unlimited access by Canadian borrowers to the U.S. long-term market was to continue. A somewhat sharper reaction to the U.S. Federal Reserve Board's announcement took place in the U.S. bond market.

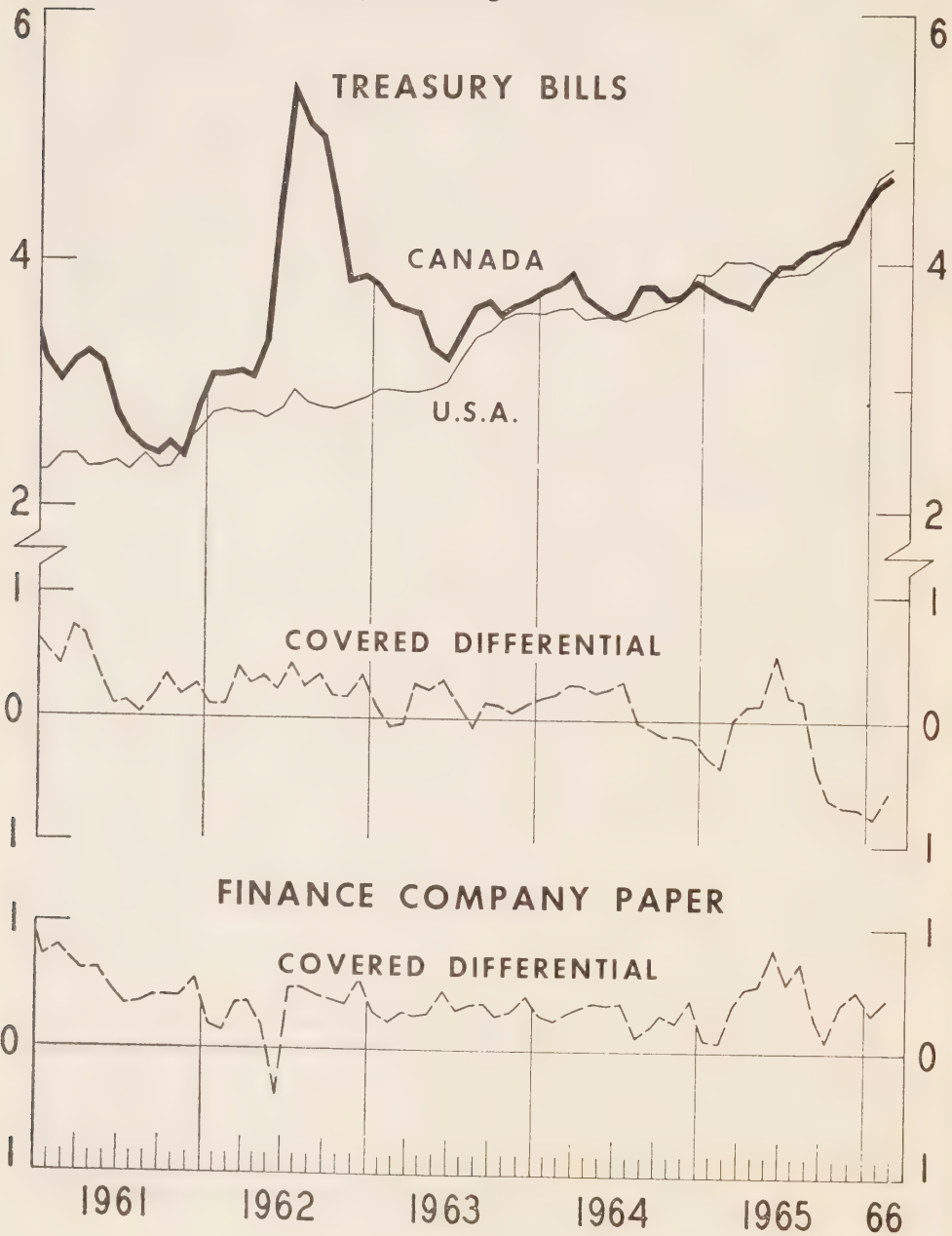
On February 1, 1966, \$330 million $3\frac{1}{2}$ per cent bonds were due to mature. Not wishing to upset the relatively delicate stability in Canadian interest rates, which in the face of declining U.S. bond prices was bringing about a narrowing of the yield differential between U.S. and Canadian bonds at a time when first quarter capital inflows were expected to be at a relatively high level, priority was given to designing an issue having a minimum impact on market prices. It was decided to refund \$300 million only of the maturing \$330 million $3\frac{1}{2}$ per cent bonds due February 1, 1966 and to offer investors a wide choice of maturities. A refunding issue was offered with three maturities, described more fully in Table 59, open as to amount in each maturity and priced close to prevailing market levels. In addition, the Bank of Canada offered to primary distributors \$25 million in each of 5 per cent Government of Canada bonds due October 1, 1973 and $5\frac{1}{4}$ per cent Government of Canada bonds due May 1, 1990 out of its own portfolio in exchange for the new issue. This had the effect of making available an even wider choice to Canadian investors and, since these bonds offered by the Bank of Canada were not exempt from U.S. Interest Equalization Tax, U.S. investor interest was kept to a minimum.

As in previous years, outstanding issues were added to where possible during the fiscal year 1965-66 in order to provide a broader market and to provide greater flexibility in future debt management operations. Of the thirteen new issues during 1965-1966, nine were additions to existing issues and four new maturity dates were opened. In the circumstances, it was not possible to achieve any lengthening of maturity during this period, and the average term to maturity of Government of Canada marketable securities, excluding perpetual bonds, declined from 7 years 11 months to 7 years 9 months.

CHART 24

SELECTED 3 MONTH INTEREST RATES

Monthly Averages - Per Cent

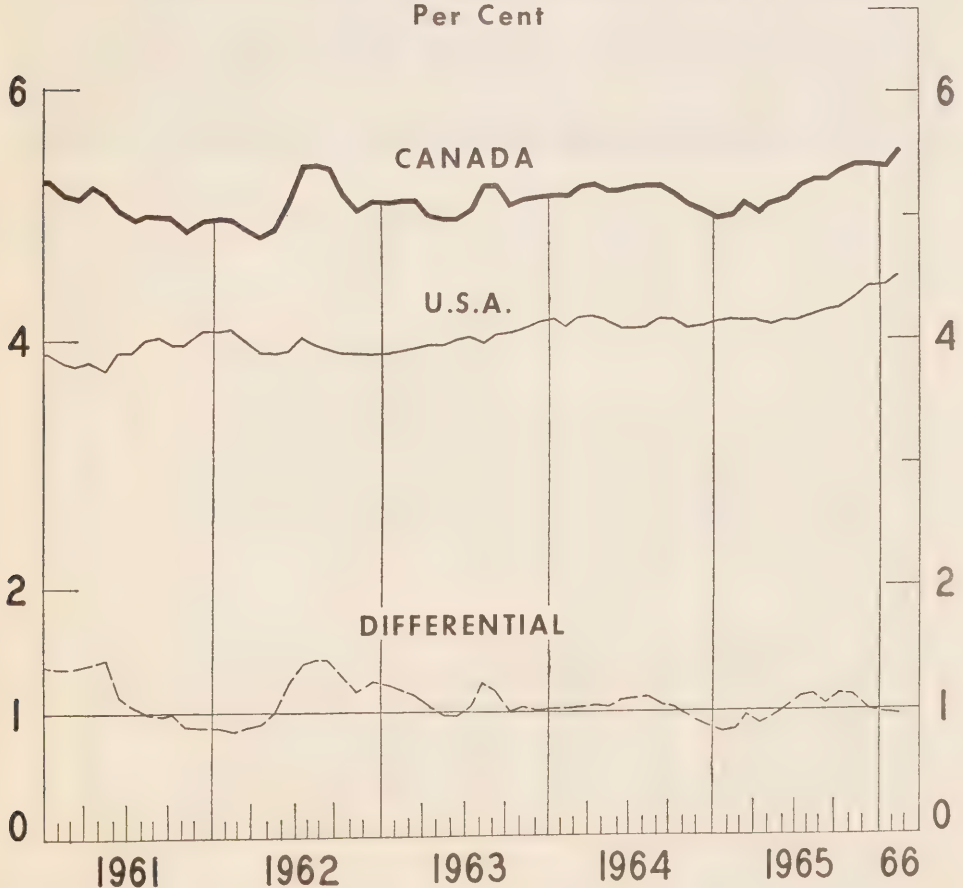


The Canada Savings Bond campaign of 1964 offered an initial interest rate of $4\frac{1}{2}$ per cent and a yield to maturity of 5 per cent per annum. These rates were competitive with those available elsewhere to the general public and the amount of Savings Bonds outstanding increased by \$480 million during 1964 to a total of \$5,613 million at the end of the year. In planning the 1965 campaign, approximately the same interest rates were offered as in 1964 even although it was recognized that the rate was less competitive with rates offered on other savings instruments. It was anticipated that its effect would be to reduce net receipts from Savings Bonds; in the event, the net amount of outstanding Savings Bonds rose by only \$253 million in 1965.

CHART 25

LONG-TERM GOVERNMENT BOND YIELD AVERAGES

Per Cent



Interest Rates

Table 60 indicates the quarter by quarter changes in interest rates of a broad representative list of investments. The most significant changes which took place in 1965 were the continuous upward adjustments in the general level of interest rates after the first quarter and a flattening of the yield curve associated with the relatively greater increase in short-term rates than in long-term rates.

The upward adjustments in the general level of interest rates reflect the heavier demands for credit associated with the high rate of economic growth achieved in 1965 and a tighter monetary policy posture. In addition to these general developments were two events of particular significance to the short-term market, namely, the U.S. guidelines announced in February and the default of Atlantic Acceptance Corporation in June, which helped to bring about a relatively greater increase in short-term rates of under one year maturity than in the rest of the maturity range. While finance companies were particularly hard pressed to raise funds in the short-term market after June, the undermining of investor confidence brought about by the Atlantic Acceptance Corporation default caused other financial corporations to experience difficulties also. From March 31 to the end of 1965 short-term rates, as represented by prime finance and commercial paper, increased by about 160 basis points while long-term Government of Canada bonds increased by about 40 basis points in yield.

TABLE 60
INTEREST RATES IN 1965

Period to Maturity	Issuer	Investment	1964		1965				Changes in each quarter of 1965				Total Change in 1965
			Dec.		March	June	Sept.	Dec.	1st	2nd	3rd	4th	
30 days.....	Grain Companies..... Corporations..... Finance Companies..... Corporations..... Chartered Banks..... Trust Companies..... Govt. of Canada..... Corporations..... Finance Companies.....	Grain Paper.....	4.19		4.19	4.44	4.75	5.13	Nil	+0.25	+0.31	+0.38	+0.94
		Bankers' Acceptances.....	4.38		4.13	4.63	4.88	4.96	-0.25	+0.50	+0.25	+0.07	+0.57
		Prime Finance Paper: Low.....	4.14	3.89	4.14	4.27	4.87	5.75	-0.25	+0.38	+0.60	+0.88	+1.61
		High.....	4.39	4.14	4.52	4.32	5.02	6.00	-0.25	+0.38	+0.50	+0.98	+1.61
		Prime Commercial Paper.....	4.38	4.13	4.63	4.63	4.88	6.00	-0.25	+0.50	+0.25	+1.12	+1.62
		Term Deposits.....	3.63	3.88	4.13	4.25	4.25	5.25	+0.25	+0.25	+0.12	+1.00	+1.62
		G.I.C.'s.....	3.92	3.92	4.50	4.63	4.63	5.38	Nil	+0.58	+0.13	+0.75	+1.46
		Term Deposits.....	4.00	4.00	4.13	4.75	4.75	5.50	Nil	+0.13	+0.62	+0.75	+1.50
		Treasury Bills.....	3.82	3.62	3.93	4.13	4.13	4.56	-0.20	+0.31	+0.20	+0.43	+0.74
		Bankers' Acceptances.....	4.20	3.95	4.15	4.63	4.63	5.05	-0.25	+0.20	+0.48	+0.42	+0.85
90 days.....	Prime Finance Paper: Low..... High..... Prime Commercial Paper..... Term Deposits..... G.I.C.'s..... Term Deposits..... Treasury Bills..... Term Deposits..... G.I.C.'s..... Term Deposits..... Govt. of Canada..... Chartered Banks..... Trust Companies.....	Prime Finance Paper: Low.....	4.55	4.42	4.81	4.81	5.06	5.88	-0.13	+0.39	+0.25	+0.82	+1.33
		High.....	4.68	4.55	4.93	4.93	5.32	6.13	-0.13	+0.38	+0.39	+0.81	+1.45
		Prime Commercial Paper.....	4.63	4.50	4.88	4.88	5.13	6.00	-0.13	+0.38	+0.25	+0.87	+1.37
		Term Deposits.....	4.00	4.25	4.37	4.37	4.50	5.63	+0.25	+0.12	+0.13	+1.13	+1.63
		G.I.C.'s.....	4.25	4.21	4.57	4.57	4.76	5.56	-0.04	+0.36	+0.19	+0.80	+1.31
		Term Deposits.....	4.38	4.38	4.50	4.50	4.88	5.75	Nil	+0.12	+0.38	+0.87	+1.37
		Treasury Bills.....	3.96	3.73	4.04	4.04	4.35	4.78	-0.23	+0.31	+0.31	+0.43	+0.82
		Term Deposits.....	4.13	4.38	4.50	4.50	4.63	5.63	+0.25	+0.12	+0.13	+1.00	+1.50
		G.I.C.'s.....	4.46	4.34	4.69	4.69	4.94	5.58	-0.12	+0.35	+0.25	+0.64	+1.12
		Term Deposits.....	4.50	4.50	4.63	4.63	5.00	5.75	Nil	+0.13	+0.37	+0.75	+1.25
One Year.....	Chartered Banks..... Trust Companies..... Govt. of Canada..... Chartered Banks..... Trust Companies..... Govt. of Canada.....												

PART II
REVIEW OF GOVERNMENT ACCOUNTS 1965-66

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PART II

REVIEW OF GOVERNMENT ACCOUNTS

1965-66

INTRODUCTION

This Part of the Budget Papers presents in summary form a review of the accounts of the Government of Canada for the fiscal year 1965-66. The fiscal year of the government ends on March 31, but under the provisions of section 35 of the Financial Administration Act, for thirty days after the end of each fiscal year, payments for the discharge of debts properly applicable to the old year may be made and charged to that year. Consequently the books must remain open for some time after the fiscal year-end to take into account these payments and to record various adjusting entries. The figures used in this report are based on ten months actual and two months estimated. The final figures when they become available next July or August will vary to some extent from those given in the following pages.

Previous year figures have been adjusted to reflect transfers of duties pursuant to the Public Service Rearrangement and Transfer of Duties Act.

HIGHLIGHTS OF THE GOVERNMENT'S FINANCIAL OPERATIONS DURING 1965-66

This section outlines the financial operations of the government giving a brief summary of the budgetary and non-budgetary transactions, the unmatured debt transactions and the changes in the cash position and the debt position during 1965-66. More detailed explanations of these transactions are given in subsequent sections of this Part.

The following table summarizes the budgetary and non-budgetary transactions for 1965-66 with comparative figures for 1964-65 and indicates how these transactions affect the government's cash balances:

TABLE 1
(in millions of dollars)

SUMMARY OF BUDGETARY AND NON-BUDGETARY TRANSACTIONS AND CHANGES IN CASH POSITION	Fiscal year ending March 31	
	1966 (estimated)	1965
Budgetary transactions—		
Revenue—		
Tax.....	6,832	6,367
Non-tax.....	841	813
	<u>7,673</u>	<u>7,180</u>
Expenditure—		
Defence.....	1,585	1,586
Non-defence.....	6,122	5,632
	<u>7,707</u>	<u>7,218</u>
Deficit (—).....	—34	—38
Non-budgetary transactions (excluding unmatured debt trans-		
actions)—		
Receipts and credits—		
Repayment of temporary loans to old age security fund.....	25	75
Repayment of other loans, investments and advances.....	51	65
Net annuity, insurance and pension account receipts.....	705	545
Other.....	289	149
	<u>1,070</u>	<u>834</u>
Disbursements and charges—		
Advances to exchange fund.....	51	20
Redemption of non-interest-bearing notes payable on demand..	108	219
Other loans, investments and advances.....	896	700
Other.....	168	279
	<u>1,223</u>	<u>1,218</u>
Net amount available from or required for (—) non-budgetary transactions.....	—153	—384
Overall cash requirements to be financed by increase in unmatured debt or decrease in cash balances.....	—187	—422
Net increase in unmatured debt outstanding in the hands of the public.....	147	275
Net increase or decrease (—) in Receiver General bank balances...	—40	—147

Budgetary transactions

The budgetary revenue, expenditure and deficit as forecast in the budget speech of April 26, 1965 and the figures as now estimated for the fiscal year 1965-66 are shown in the following table:

TABLE 2
(in millions of dollars)

BUDGETARY TRANSACTIONS FOR FISCAL YEAR 1965-66	Budget forecast April 26, 1965	Actual (estimated)	Increase or decrease (—) compared with April 26, 1965 forecast	
			Amount	Per cent
Revenue.....	7,350	7,673	323	4.39
Expenditure.....	7,650	7,707	57	0.75
Deficit.....	300	34	—266	

Revenue

Budgetary revenue of the government in the fiscal year 1965-66 is estimated at \$7,673 million. This is \$323 million or approximately $4\frac{1}{2}$ per cent more than the April 26, 1965 budget forecast and \$493 million or 7 per cent more than the total of \$7,180 million collected in 1964-65.

Tax revenue accounts for \$465 million and non-tax revenue for \$28 million of the increase over 1964-65 receipts.

The yield from personal income tax, corporation income tax and the tax on dividends, interest, etc., going abroad is \$159 million more than collections in 1964-65 and receipts from the sales tax are \$180 million more.

Expenditure

Budgetary expenditure of the government in 1965-66 is estimated at \$7,707 million, \$57 million or approximately one per cent higher than forecast and \$489 million or 7 per cent higher than expenditures in 1964-65.

Defence expenditure at \$1,585 million is 21 per cent of total budgetary expenditure, compared with \$1,586 million or 22 per cent in 1964-65 and is again the largest category.

Civil or non-defence expenditure at \$6,122 million compares with \$5,632 million in 1964-65, an increase of \$490 million. The main changes are an increase of \$115 million in fiscal, subsidy and other payments to provinces and a decrease of \$120 million in contributions to provinces under the Hospital Insurance and Diagnostic Services Act due to the fact that Quebec opted out of the program.

Deficit

Expenditure of \$7,707 million exceeds revenue of \$7,673 million resulting in a deficit of \$34 million compared with a deficit of \$300 million as forecast on April 26, 1965 and the deficit of \$38 million in 1964-65.

Non-budgetary transactions (excluding unmatured debt transactions)

Non-budgetary transactions are those which increase or decrease the government's asset and liability accounts and do not enter into the calculation of the annual budgetary surplus or deficit.

In 1965-66 estimated net disbursements and charges of \$1,223 million exceed net receipts and credits of \$1,070 million resulting in a net requirement of \$153 million. In 1964-65 net receipts and credits totalled \$834 million, net disbursements and charges totalled \$1,218 million, resulting in a net requirement of \$384 million.

Old age security fund

Receipts by the fund during 1965-66 are estimated at \$1,163 million and exceed estimated payments of \$923 million from the fund by \$240 million. In 1964-65 receipts were \$960 million and payments were \$885 million.

The excess of \$240 million of receipts over payments resulted in the liquidation of the \$25 million in outstanding temporary loans by the Minister of Finance and a credit balance of \$215 million in the old age security fund.

The transactions in the account during 1965-66 compared with those for 1964-65 are as follows:

	Fiscal year ending March 31	
	1966 (estimated)	1965
	(in millions of dollars)	
Tax receipts.....	1,163	960
Pension payments.....	923	885
Excess of receipts over payments.....	240	75
Temporary loans by the Minister of Finance carried forward.....	-25	-100
Balance in old age security fund.....	215	-25

Unmatured debt transactions

Unmatured debt transactions in 1965-66 reflect an increase of \$147 million in unmaturred debt outstanding in the hands of the public compared with an increase of \$275 million in 1964-65.

Cash position

Receiver General bank balances are expected to be \$642 million at March 31, 1966, a decrease of \$40 million from the March 31, 1965 total. (Cash received after March 31 is recorded in the subsequent fiscal year bank accounts.) The decrease in cash balances is the result of the non-budgetary requirements of \$153 million plus the budgetary deficit of \$34 million partly offset by the increase of \$147 million in unmaturred debt outstanding in the hands of the public.

Debt position

As a result of these budgetary and non-budgetary transactions the gross public debt increased by \$1,044 million to \$27,617 million, net recorded assets by \$1,010 million to \$12,079 million and net debt by \$34 million to \$15,538 million at March 31, 1966. The increase in net debt reflects the budgetary deficit of \$34 million.

THE BUDGETARY ACCOUNTS

Estimated total revenue at \$7,673 million for 1965-66 is \$493 million more than the total for the previous fiscal year. Estimated total expenditure of \$7,707 million is \$489 million more than the total for 1964-65. The estimated deficit is \$34 million compared with \$38 million for the previous fiscal year.

BUDGETARY REVENUE AND EXPENDITURE Fiscal Years Ended March 31 Billions of Dollars

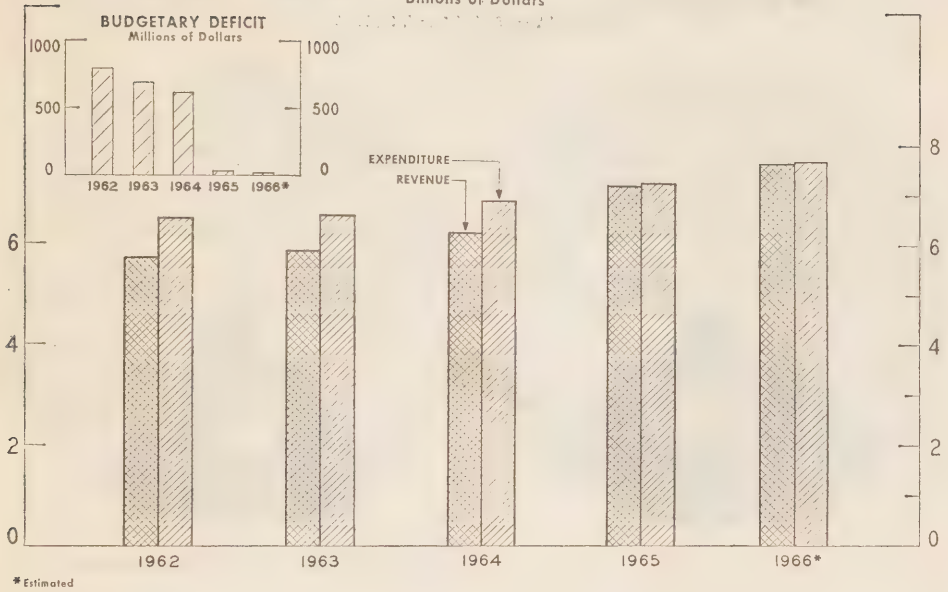


TABLE 3
BUDGETARY REVENUE, EXPENDITURE AND DEFICIT
(in millions of dollars)

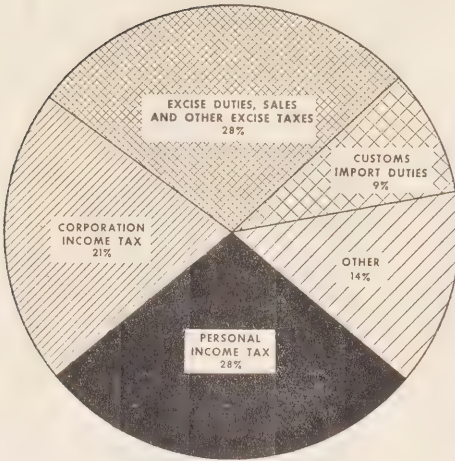
FISCAL YEAR ENDING MARCH 31	Budgetary revenue	Budgetary expenditure	Surplus or deficit (-)
1957.....	5,106.5	4,849.0	257.5
1958.....	5,048.8	5,087.4	-38.6
1959.....	4,754.7	5,364.0	-609.3
1960.....	5,289.8	5,702.9	-413.1
1961.....	5,617.7	5,958.1	-340.4
1962.....	5,729.6	6,520.6	-791.0
1963.....	5,878.7	6,570.3	-691.6
1964.....	6,253.2	6,872.4	-619.2
1965.....	7,180.3	7,218.3	-38.0
1966 (estimated).....	7,673.0	7,707.0	-34.0

REVENUE

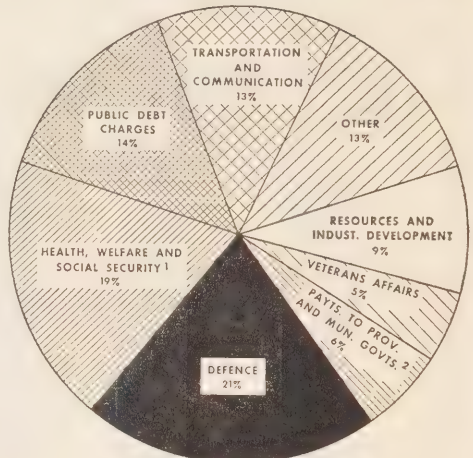
Budgetary revenue in 1965-66 is estimated at \$7,673 million, \$493 million or 7 per cent over the total of \$7,180 million received in 1964-65. Tax revenue at \$6,832 million accounts for 89 per cent of the total revenue for the fiscal year and non-tax revenue at \$841 million accounts for 11 per cent.

BUDGETARY REVENUE BY MAJOR SOURCE

For Fiscal Year Ended March 31, 1966
Estimated



BUDGETARY EXPENDITURE BY MAJOR FUNCTION

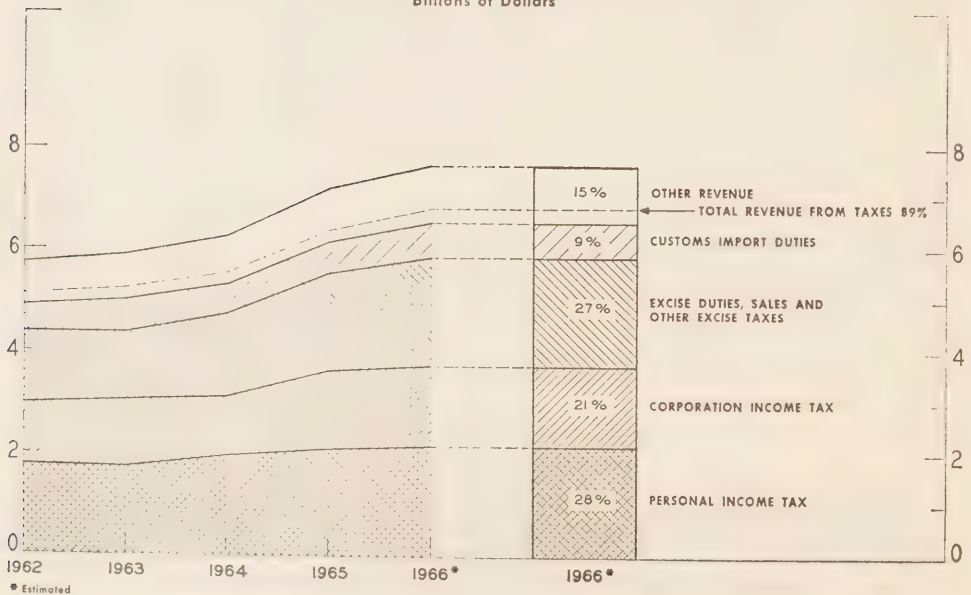


1. Does not include payments out of old age security fund.

2. Does not include those payments made to provincial and municipal governments for specific purposes.

BUDGETARY REVENUE BY SOURCE

Fiscal Years Ended March 31
Billions of Dollars



The more important items are increases of \$47 million in personal income tax collections, \$86 million in corporation income tax collections, \$180 million in sales tax receipts and \$54 million in customs import duties.

TABLE 4
BUDGETARY REVENUE BY MAJOR SOURCES
(in millions of dollars)

SOURCE	Fiscal year ending March 31				Increase or decrease (—)	
	1966 (estimated)		1965			
	Amount	Per cent	Amount	Per cent	Amount	Per cent
Tax revenue—						
Income tax—						
Personal ⁽¹⁾	2,150.0	28.0	2,103.3	29.3	46.7	2.2
Corporation ⁽¹⁾	1,610.0	21.0	1,523.8	21.2	86.2	5.4
On dividends, interest, etc., going abroad.....	170.0	2.2	143.7	2.0	26.3	18.3
Excise taxes—						
Sales ^{(1) (2)}	1,385.0	18.1	1,204.6	16.8	180.4	15.0
Other.....	295.0	3.8	269.1	3.8	25.9	9.6
Customs import duties.....	676.0	8.8	622.1	8.7	53.9	8.7
Excise duties.....	439.0	5.7	411.4	5.7	27.6	6.7
Estate tax ⁽³⁾	106.8	1.4	88.6	1.2	18.2	20.5
Other taxes.....	0.2		0.2			
	6,832.0	89.0	6,366.8	88.7	465.2	7.3
Non-tax revenue—						
Return on investments.....	436.0	5.7	422.7	5.9	13.3	3.1
Post office—net postal revenue.....	235.0	3.1	230.4	3.2	4.6	2.0
Other non-tax revenue.....	170.0	2.2	160.4	2.2	9.6	6.0
	841.0	11.0	813.5	11.3	27.5	3.4
Total budgetary revenue.....	7,673.0	100.0	7,180.3	100.0	492.7	6.9

	1965-66 (estimated)	1964-65
⁽¹⁾ Excluding tax credited to the old age security fund—		
Personal income tax.....	496.0	431.9
Corporation income tax.....	151.0	145.2
Sales tax.....	516.0	383.2
	1,163.0	960.3

⁽²⁾Net after deduction of refunds and drawbacks.

⁽³⁾Includes duties levied under the Dominion Succession Duty Act.

Federal-provincial fiscal arrangements

Under fiscal arrangements, that became operative in 1962, the federal government withdrew in part from the field of direct taxation and left the vacated area to the provinces. The federal government offered to collect the provincial income taxes without charge provided that provincial personal income tax was expressed as a percentage of federal personal income tax otherwise payable and provincial corporation income tax applied to taxable income calculated in the same way as for federal income tax purposes. To allow for the imposition of the provincial income taxes, the Income Tax Act was amended to abate the federal income tax otherwise payable by individuals in all provinces by 16 per cent in 1962, 17 per cent in 1963, 18 per cent in 1964, 21 per cent in 1965 and 24 per cent in 1966. For 1965 and 1966, the Province of Quebec obtained an additional 23 percentage points of the federal income tax otherwise payable in that province in compensation of the fact that the payment of youth allowances and the full cost of certain programs which are supported jointly by federal and provincial governments in the other provinces have been assumed by that province. The personal income tax abatement rates for Quebec in 1965 and 1966 are thus 44 per cent and 47 per cent respectively. For the period 1962-67 the federal corporation income tax rates are abated by 9 percentage points for taxable income earned in a province other than Quebec and by 10 percentage points for taxable income earned in Quebec. The additional one percentage point for Quebec is in compensation of the payment by that province of university grants which in the other provinces are made by the federal government. The federal government has entered into tax-collection agreements under which it collects the provincial personal income taxes for all provinces except Quebec and the provincial corporation income taxes for all provinces except Ontario and Quebec.

Under these collection agreements, payments are made monthly to each province based on an estimate of that province's tax revenue. When the actual amounts of assessed returns are established, usually in the month of December following the end of the fiscal year, adjustments are made with the provinces.

Under the 1962-67 fiscal arrangements, the federal government agreed to abate its estate tax by 50 per cent in the fiscal years 1962-63 and 1963-64, and by 75 per cent in the fiscal years 1964-65, 1965-66 and 1966-67 in any province that imposed its own succession duties. To a province that did not wish to re-enter the succession duty field the federal government agreed to pay 50 per cent of the federal estate tax revenue in 1962-63 and 1963-64 and 75 per cent in 1964-65, 1965-66 and 1966-67. During 1962-63, Quebec and Ontario collected their own succession duties while the other provinces received a payment in lieu of imposing duties. Starting in 1963-64 British Columbia joined Ontario and Quebec in imposing its own succession duties. When the abatement was raised to 75 per cent in 1964-65, British Columbia increased its rates accordingly but Quebec and Ontario accepted in lieu of the extra abatement a payment equivalent to 25 per cent of the federal estate tax in those provinces.

Tax on personal income

In 1965-66 the largest source of government revenue is again the personal income tax. The yield (excluding the old age security tax) is \$2,150 million or 28 per cent of all budgetary revenue. The increase of \$47 million or 2 per cent over 1964-65 collections is due principally to the higher level of personal incomes during the year partly offset by higher provincial abatements and a federal tax reduction effective July 1, 1965. In addition to the federal revenue, \$357 million was allocated to the provincial tax collection agreements account under the

terms of federal-provincial fiscal arrangements. In 1964-65 federal revenue from this source was \$2,103 million and in addition \$369 million was allocated to the provincial tax collection agreements account.

The tax on personal incomes levied under the Old Age Security Act and credited to the old age security fund is \$496 million compared with \$432 million in 1964-65.

Corporation income tax

The corporation income tax is the second largest source of government revenue. The yield (excluding the old age security tax) is \$1,610 million or 21 per cent of all budgetary revenue. The increase of \$86 million or 5 per cent over the 1964-65 collections is due mainly to the continuous growth of corporation profits in recent years. In addition to the federal revenue, \$118 million was allocated to the provincial tax collection agreements account under terms of federal-provincial fiscal arrangements. In 1964-65 federal revenue from this source was \$1,524 million and in addition \$135 million was allocated to the provincial tax collection agreements account.

The tax on incomes of corporations levied under the Old Age Security Act and credited to the old age security fund is \$151 million compared with \$145 million in 1964-65.

Taxes on dividends, interest, etc., going abroad

Revenue in this category is derived from taxes withheld on payments of dividends, interest, rents, royalties, alimony and income from estates and trusts paid to non-residents. Collections for 1965-66 are \$170 million, an increase of \$26 million or 18 per cent over the 1964-65 total.

Excise taxes

Revenue under this heading is from the general sales tax and other excise taxes.

From a revenue standpoint the general sales tax is the most important tax levied under the Excise Tax Act. Receipts (excluding the old age security tax) are \$1,385 million or 15 per cent higher than in the previous fiscal year.

The tax on sales levied under the Old Age Security Act and credited to the old age security fund is \$516 million.

The yield from excise taxes levied under the Excise Tax Act, other than the general sales tax, at \$295 million is \$26 million more than in 1964-65.

Customs import duties

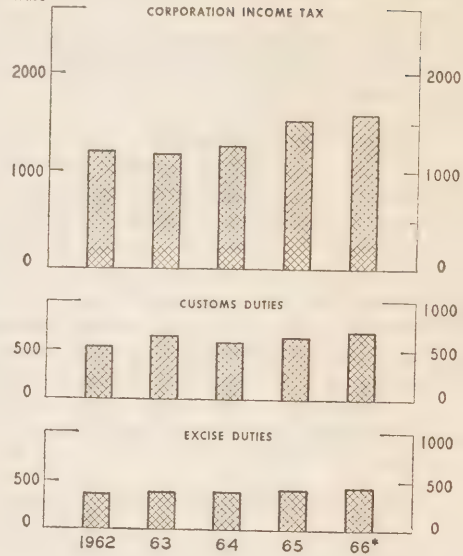
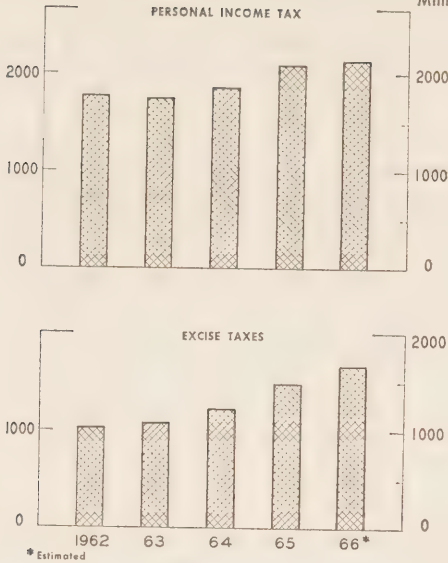
Receipts from this source are \$676 million compared with \$622 million in 1964-65. The increase of \$54 million or 9 per cent reflects the greater volume and value of imports during 1965-66.

Excise duties

Excise duties are levied on alcoholic beverages (other than wines) and tobacco products. (Additional taxes on tobacco products are levied under the Excise Tax Act.) Net receipts in 1965-66 are \$439 million compared with \$411 million in 1964-65.

Gross receipts of \$261 million from duties on alcoholic beverages (\$155 million in respect of spirits and \$106 million in respect of beer) and \$184 million from duties on tobacco products have been reduced by refunds and drawbacks of \$6 million. In 1964-65 gross receipts of \$240 million from duties on alcoholic beverages (\$135 million in respect of spirits and \$105 million in respect of beer) and \$177 million from duties on tobacco products were reduced by refunds and drawbacks of \$6 million.

PRINCIPAL SOURCES OF TAX REVENUE

Fiscal Years Ended March 31
Millions of Dollars**Estate tax**

Revenue in this category is derived under the Estate Tax Act. Net receipts of \$107 million are \$18 million more than in 1964-65.

Other taxes

Revenue under this heading during the fiscal year is \$200 thousand, the same as in the previous year.

NON-TAX REVENUE

Non-tax revenue is \$841 million, an increase of \$28 million over the 1964-65 total.

TABLE 5
(in millions of dollars)

NON-TAX REVENUE	Fiscal year ending March 31		Increase or decrease (-)	
	1966 (estimated)	1965	Amount	Per cent
Return on investments.....	436.0	422.7	13.3	3.1
Post office—net postal revenue.....	235.0	230.4	4.6	2.0
Refunds of previous years' expenditure.....	16.0	20.5	-4.5	-22.0
Services and service fees.....	64.0	60.9	3.1	5.1
Proceeds from sales.....	25.0	24.3	0.7	2.9
Privileges, licences and permits.....	39.0	30.8	8.2	26.6
Bullion and coinage.....	12.0	12.3	-0.3	-2.4
Other.....	14.0	11.6	2.4	17.1
	841.0	813.5	27.5	3.4

Return on investments

These receipts, in an amount of \$436 million, consist of income derived from loans and advances made by the government and from investments by the government in productive or earning assets. In 1964-65 receipts were \$423 million.

Receipts from Crown corporations at \$314 million are \$3 million more than in the previous year. The main changes are a decrease of \$34 million in payments by The St. Lawrence Seaway Authority in respect of deferred interest and increases of \$15 million in the Bank of Canada profits paid to the government and \$11 million in payments by the Central Mortgage and Housing Corporation.

The yield from other loans and investments at \$122 million is \$10 million more than the 1964-65 total. This is mainly accounted for by the receipt of \$8 million in interest on special United States of America securities—Columbia River Treaty.

TABLE 6
(in millions of dollars)

RETURN ON INVESTMENTS	Fiscal year ending March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Loans to, and investments in, Crown corporations—			
Bank of Canada—profits.....	143.1	128.3	14.8
Canadian National Railways.....	11.3	11.6	—0.3
Canadian Overseas Telecommunication Corporation....	2.6	2.7	—0.1
Central Mortgage and Housing Corporation.....	104.4	93.3	11.1
Eldorado Mining and Refining Limited.....	1.5	1.5	
Export Credits Insurance Corporation.....	5.6	3.0	2.6
Farm Credit Corporation.....	21.0	13.9	7.1
National Capital Commission.....	3.3	2.9	0.4
National Harbours Board.....	4.1	3.4	0.7
Northern Canada Power Commission.....	2.5	2.1	0.4
Polymer Corporation Limited.....	4.0	4.0	
The St. Lawrence Seaway Authority.....	9.4	43.1	—33.7
Miscellaneous.....	1.3	1.4	—0.1
	314.1	311.2	2.9
Other loans and investments—			
United Kingdom.....	1.9	1.2	0.7
Other national governments.....	5.0	5.2	—0.2
Provincial governments.....	1.0	1.1	—0.1
Exchange fund account.....	62.8	63.6	—0.8
Interest-bearing deposits with chartered banks.....	20.5	19.6	0.9
Profit on bond exchange.....		0.9	—0.9
Securities investment account.....	2.0	5.6	—3.6
Sinking fund and other investments held for retirement of unmatured debt.....	0.3		0.3
Soldier and general land settlement loans and veterans land act advances.....	9.6	8.3	1.3
Special United States of America securities—Columbia River Treaty.....	9.2	1.1	8.1
Unemployment Insurance Commission.....		0.2	—0.2
Miscellaneous.....	9.6	4.7	4.9
	121.9	111.5	10.4
	436.0	422.7	13.3

Post office revenue

Gross post office receipts are \$272 million but authorized disbursements from revenue for salaries and rent allowances, other allowances and commissions at semi-staff and revenue offices, commissions at sub-offices, transit charges on Canadian mail forwarded through and delivered in foreign countries, etc. in the

amount of \$37 million, brings net revenue to \$235 million. In the previous fiscal year gross revenue was \$264 million, authorized disbursements were \$33 million and net revenue was \$231 million.

TABLE 7
(in millions of dollars)

POST OFFICE REVENUE	Fiscal year ending March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Postage—			
In Canada.....	254.8	246.6	8.2
From foreign countries.....	4.0	4.3	—0.3
Commission on money orders.....	9.2	9.0	0.2
Rental of post office boxes.....	2.4	2.2	0.2
Other.....	1.6	1.6	
	272.0	263.7	8.3
Less—			
Salaries and allowances at semi-staff and revenue offices.....	—32.5	—28.8	—3.7
Transit charges on foreign correspondence.....	—1.3	—1.3	
Other.....	—3.2	—3.2	
	—37.0	—33.3	—3.7
	235.0	230.4	4.6

Net costs of operating the Post Office Department during 1965–66 (excluding the \$37 million charged to revenue) of \$239 million exceeds net revenue by \$4 million. However, in making this comparison, it should be noted that the total shown for post office revenue does not reflect any payment for the franking privilege covering parliamentary and departmental mail or for certain miscellaneous services provided for other government departments and agencies, nor does the total shown for operating expenses reflect any charges for premises occupied by the Post Office Department or for accounting and miscellaneous services provided by other departments.

Refunds of previous years' expenditure

Refunds in 1965–66 of expenditures made in prior years are \$16 million, a decrease of \$5 million from the comparable total for 1964–65.

The Department of National Defence received \$7 million of which \$4 million was due to contract re-negotiations and the Department of Veterans Affairs received \$3 million in refunds of veterans pensions, allowances and re-establishment credits.

Services and service fees

Revenue at \$64 million during 1965–66 is \$3 million more than in the previous fiscal year.

The Department of Transport received \$20 million including aircraft landing fees of \$11 million, marine steamers earnings of \$3 million, harbour dues and wharfage of \$2 million and air-ground radio service fees of \$1 million; the Royal Canadian Mounted Police received \$16 million for police services mainly to provinces and municipalities; the Department of Agriculture received \$9 million of which \$6 million is for services in connection with the inspection, weighing, storage and elevation of grain and \$2 million for race track supervision; the Department of Finance received \$5 million derived from the issuance of coin sets by the Royal Canadian Mint; the Department of National Health and Welfare received \$5 million including a \$3 million reimbursement by the provinces for treatment of Indians in federal government hospitals; and the Department of Trade and Commerce received \$3 million, mainly from weights and measures and electricity and gas inspection fees.

Proceeds from sales

Receipts of \$25 million from this source are \$1 million more than the total for 1964-65.

The Department of Defence Production received \$10 million mainly from the sale of surplus Crown assets and Central Mortgage and Housing Corporation received \$5 million from the sales of properties.

Privileges, licences and permits

Revenue from this category totals \$39 million for 1965-66, \$8 million more than receipts of \$31 million in 1964-65.

The Department of Transport received \$15 million mainly from rentals, concessions and radio licence fees; the Department of Northern Affairs and National Resources received \$10 million of which \$6 million was in respect of oil and gas and \$1 million from transient motor vehicle licences; and the Department of Public Works received \$4 million for rental of public buildings and sites.

Bullion and coinage

Revenue of \$12 million derived from the operations of the Royal Canadian Mint consists mainly of a net gain on coinage. Small amounts are also obtained from gold refining charges, handling charges and gain on gold refining. In 1964-65 revenue from this source was \$12 million. In addition \$5 million has been received from the issuance of coin sets and reported under services and service fees.

Other non-tax revenue

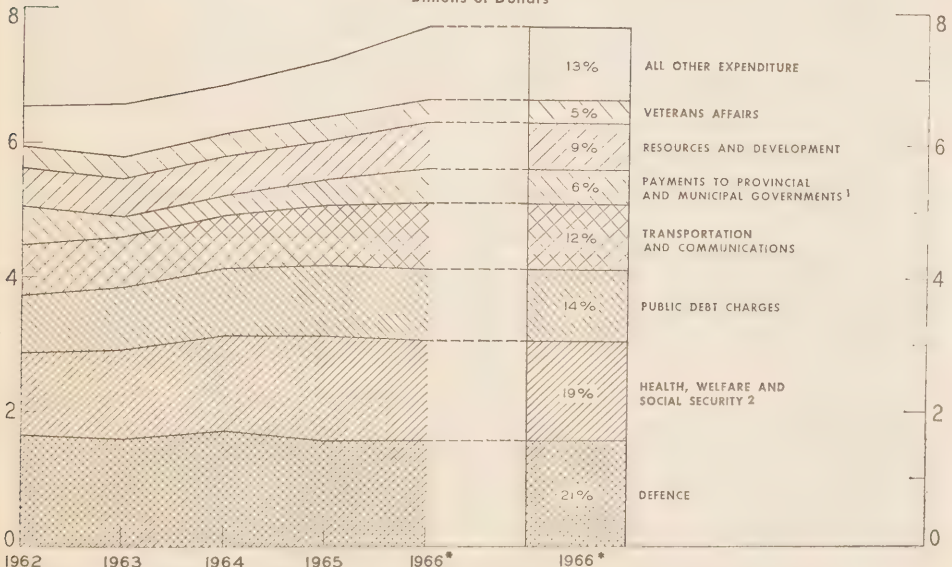
Other non-tax revenue in the amount of \$14 million is \$2 million more than in 1964-65.

EXPENDITURE

Budgetary expenditure is estimated at \$7,707 million for 1965-66, \$489 million or 7 per cent higher than in 1964-65.

BUDGETARY EXPENDITURE, CLASSIFIED BY FUNCTION

Fiscal Years Ended March 31
Billions of Dollars



1. Does not include those payments made to provincial and municipal governments for specified purposes.

2. Does not include pension payments out of the old age security fund not charged to budgetary expenditure in the year in which they were paid.

* Estimated

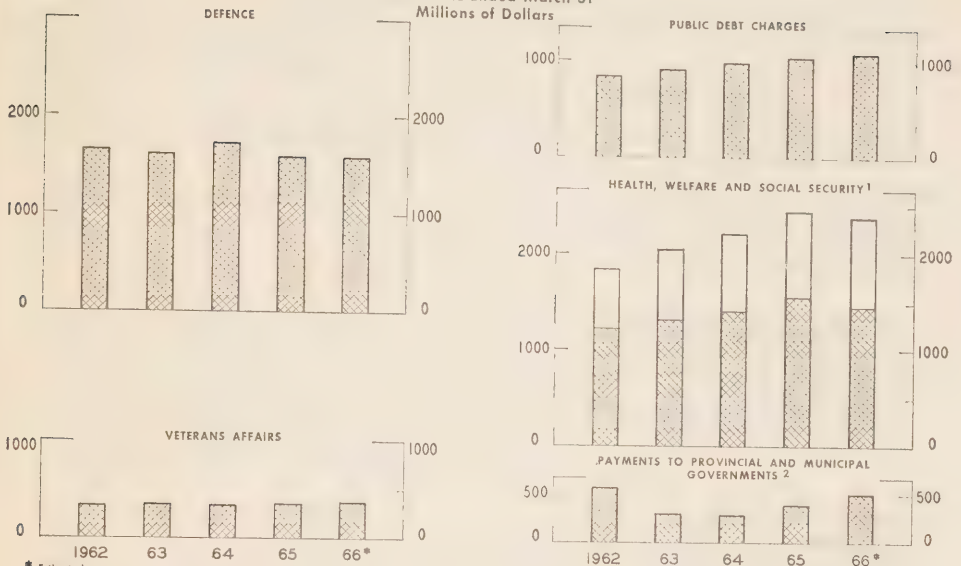
TABLE 8
STATEMENT OF BUDGETARY EXPENDITURE BY DEPARTMENTS AND MAJOR CLASSIFICATIONS
(in millions of dollars)

	Fiscal year ending March 31				Increase or decrease (—)	
	1966 (estimated)		1965			
	Amount	Per cent	Amount	Per cent	Amount	Per cent
Defence expenditure—						
National Defence.....	1,536.7	20.0	1,537.8	21.3	—1.1	—0.1
Defence Production ⁽¹⁾	14.6	0.2	19.7	0.3	—5.1	—25.9
Emergency Measures Organization....	8.4	0.1	7.7	0.1	0.7	9.1
Industry ⁽¹⁾	25.0	0.3	20.5	0.3	4.5	22.0
	1,584.7	20.6	1,585.7	22.0	—1.0	—0.1
Non-defence expenditure—						
Agriculture.....	197.6	2.5	165.7	2.3	31.9	19.2
Atlantic Development Board.....	22.9	0.3	4.3	0.1	18.6	432.6
Atomic Energy.....	53.6	0.7	46.6	0.6	7.0	15.0
Canadian Broadcasting Corporation...	99.4	1.3	88.0	1.2	11.4	13.0
Central Mortgage and Housing Cor- poration.....	19.4	0.3	15.0	0.2	4.4	29.3
Citizenship and Immigration.....	203.7	2.6	179.7	2.5	24.0	13.4
External Affairs.....	153.7	2.0	131.2	1.8	22.5	17.1
Finance—						
Public debt charges.....	1,085.0	14.1	1,051.3	14.5	33.7	3.2
Fiscal, subsidy and other payments to provinces.....	473.3	6.1	358.4	5.0	114.9	32.0
Government's contribution to the public service superannuation ac- count.....	58.0	0.7	55.6	0.8	2.4	4.3
Other.....	213.7	2.8	157.4	2.2	56.3	35.8
	1,830.0	23.7	1,622.7	22.5	207.3	12.8
Fisheries.....	35.4	0.5	25.6	0.3	9.8	38.3
Forestry.....	59.2	0.8	49.8	0.7	9.4	18.9
Justice.....	11.8	0.2	10.9	0.1	0.9	8.3
Labour.....	24.4	0.3	24.3	0.4	0.1	4.1
Unemployment Insurance Act ad- ministration and government's contribution.....	98.6	1.3	95.2	1.3	3.4	3.6
	123.0	1.6	119.5	1.7	3.5	2.9
Legislation.....	14.9	0.2	14.2	0.2	0.7	4.9
Mines and Technical Surveys.....	108.6	1.4	94.2	1.3	14.4	15.3
National Capital Commission.....	18.6	0.2	10.4	0.1	8.2	78.8
National Health and Welfare—						
Family allowances.....	552.0	7.2	545.8	7.6	6.2	1.1
Government's contributions under the Hospital Insurance and Diag- nostic Services Act.....	314.0	4.1	433.9	6.0	—119.9	—27.6
Other.....	312.4	4.0	321.4	4.4	—9.0	—2.8
	1,178.4	15.3	1,301.1	18.0	—122.7	—9.4
National Research Council, including the Medical Research Council.....	74.1	1.0	56.6	0.8	17.5	30.9
National Revenue.....	95.2	1.2	86.9	1.2	8.3	9.6
Northern Affairs and National Re- sources.....	71.7	0.9	62.6	0.9	9.1	14.5
Indian affairs branch.....	81.5	1.1	64.8	0.9	16.7	24.1
	153.2	2.0	127.4	1.8	25.8	20.2
Post Office.....	239.2	3.1	210.5	2.9	28.7	13.6
Public Works.....	259.4	3.4	224.0	3.1	35.4	15.8
Royal Canadian Mounted Police.....	82.0	1.1	76.2	1.1	5.8	7.6
Secretary of State.....	25.8	0.3	21.9	0.3	3.9	17.8
Office of the Solicitor General.....	57.3	0.7	39.0	0.5	18.3	46.9
Trade and Commerce.....	46.8	0.6	54.7	0.8	—7.9	—14.4
Transport.....	523.8	6.8	466.4	6.5	57.4	12.3
Veterans Affairs.....	370.0	4.8	351.6	4.9	18.4	5.2
All Other Departments.....	65.3	0.8	38.5	0.5	26.8	69.6
	6,122.3	79.4	5,632.6	78.0	489.7	8.7
Total budgetary expenditure....	7,707.0	100.0	7,218.3	100.0	488.7	6.8

⁽¹⁾ Does not include non-defence expenditure which is included in "All Other Departments".

PRINCIPAL CLASSES OF BUDGETARY EXPENDITURE

Fiscal Years Ended March 31
Millions of Dollars



* Estimated

1. The unshaded areas of the columns in the chart for health, welfare and social security represent pension payments out of old age security fund not charged to budgetary expenditure in the year in which they were paid.

2. Does not include those payments made to provincial and municipal governments for specific purposes.

DEFENCE EXPENDITURE

Expenditures of the Department of National Defence and the Emergency Measures Organization and defence expenditures of the Department of Defence Production and the Department of Industry are again the largest category of government expenditure. The total of \$1,585 million for 1965-66 is 21 per cent of the aggregate budgetary expenditure of the government for the year and is \$1 million less than the total of \$1,586 million for 1964-65 when it was 22 per cent of total expenditure.

National Defence

Expenditures of the Department of National Defence are \$1,537 million compared with \$1,538 million in 1964-65, a decrease of \$1 million.

Expenditures for air services are \$620 million compared with \$656 million in the previous fiscal year, for army services \$460 million compared with \$434 million, for naval services \$266 million compared with \$272 million and for inspection services \$7 million, approximately the same as in the previous year.

The government's contribution to the Canadian forces superannuation account, of an amount equal to $1\frac{2}{3}$ times the contributions of permanent services personnel, is \$59 million, the same as in the previous year. A further amount of \$17 million, equal to one fifth of the actuarial deficiency arising out of pay increases, has been charged to budgetary expenditure in 1965-66.

Defence research and development costs are \$73 million compared with \$55 million in 1964-65, an increase of \$18 million.

TABLE 9
(in millions of dollars)

DEFENCE EXPENDITURE	Fiscal year ending March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Department of National Defence—			
Naval services.....	266.3	272.5	—6.2
Army services.....	459.6	433.6	26.0
Air services.....	620.2	656.0	—35.8
Inspection services.....	7.3	7.1	0.2
	1,353.4	1,369.2	—15.8
Canadian forces superannuation account—			
Government's contribution.....	58.8	58.8	
Amortization of deferred charges.....	16.8	13.4	3.4
Defence research and development.....	73.0	54.5	18.5
Mutual aid to NATO countries including contributions towards military costs of NATO.....	18.6	27.5	—8.9
Defence Construction (1951) Limited.....	2.1	2.2	—0.1
Administration and general.....	14.0	12.2	1.8
	1,536.7	1,537.8	—1.1
Department of Industry ⁽¹⁾ —			
Technological capability.....	25.0	20.5	4.5
Department of Defence Production ⁽¹⁾ —			
Canadian Arsenals Limited.....	1.8	4.6	—2.8
Production capacity and capital assistance.....	2.4	0.7	1.7
Administration and general.....	10.4	14.4	—4.0
	14.6	19.7	—5.1
Emergency Measures Organization.....	8.4	7.7	0.7
	1,584.7	1,585.7	—1.0

⁽¹⁾See also under "All Other Departments" at the end of this section.

Mutual aid to NATO countries including contributions towards military costs of NATO at \$19 million are \$9 million less than the total of \$28 million in 1964–65.

Emergency Measures Organization

Expenditures of the Emergency Measures Organization amount to \$8 million, \$1 million more than in the previous fiscal year.

Defence Production

Defence expenditures of the Department of Defence Production including those for Canadian Arsenals Limited total \$15 million compared with \$20 million in 1964–65.

Industry

Defence expenditures of the Department of Industry are \$25 million, an increase of \$5 million over the previous year. The increase is due to higher outlays in connection with the government program instituted in 1959–60 of supporting selected defence development programs in order to sustain technological capability in Canada's industry.

Cash outlays for defence

In addition to these budgetary expenditures for defence, there are other cash outlays which must be considered in arriving at the cost of Canada's defence program.

TABLE 10
(in millions of dollars)

CASH OUTLAYS FOR DEFENCE	Fiscal year ending March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Budgetary expenditures—			
Department of National Defence.....	1,536.7	1,537.8	—1.1
Department of Defence Production ⁽¹⁾	14.6	19.7	—5.1
Emergency Measures Organization.....	8.4	7.7	0.7
Department of Industry ⁽¹⁾	25.0	20.5	4.5
	1,584.7	1,585.7	—1.0
Disbursements for—			
Defence production revolving fund (net).....	—3.4	2.4	—5.8
Replacement of materiel account—sec. 11, National Defence Act (net).....	—0.1 —3.5	0.4 2.8	—0.5 —6.3
Net cash outlay for defence.....	1,581.2	1,588.5	—7.3

⁽¹⁾See also under "All Other Departments" at the end of this section.

Section 11 of the National Defence Act provides that materiel, not immediately required for the use of the Canadian defence forces or the Defence Research Board, may be sold to such countries and upon such terms as the Governor in Council may determine. The proceeds of such sales are credited to a special account to be used for the procurement of materiel. In 1965–66 credits to, and cash outlays from, the account are each \$1 million. The balance in the account at March 31, 1966 is \$1 million, approximately the same as at the previous fiscal year-end.

The Department of Defence Production also makes cash disbursements for the procurement of materials for use in the manufacture of defence equipment which are not recorded as budgetary expenditures. For purposes of accounting and control, these amounts are charged to the defence production revolving fund and are treated as assets on the books of the government until they are charged to the Department of National Defence or sold to defence contractors for use in the manufacture of defence equipment. During 1965–66 proceeds from sales of \$49 million exceeded purchases of \$46 million, resulting in a balance in the account as at March 31, 1966 of \$27 million.

NON-DEFENCE EXPENDITURE

Agriculture

Expenditures of the Department of Agriculture amount to \$198 million, an increase of \$32 million over the total for 1964–65.

Outlays for production and marketing are \$61 million, an increase of \$33 million over 1964–65 expenditures. The increase is due mainly to payments of \$21 million to eligible producers for manufacturing milk and cream delivered to

plants during the 1964-65 production year in accordance with terms and conditions prescribed by the Governor in Council (for which there was no comparable amount in 1964-65) and an increase of \$11 million in respect of plant and plant products due mainly to payments to compensate certain agricultural producers for crop losses incurred in the 1964 and 1965 crop years.

The operating loss of the agricultural stabilization board is \$41 million compared with \$57 million in the previous fiscal year, a decrease of \$16 million.

Expenditures for land rehabilitation, irrigation and water storage projects total \$32 million, an increase of \$6 million over the total of \$26 million for 1964-65.

Research expenditures are \$33 million compared with \$29 million in the previous fiscal year.

TABLE 11
(in millions of dollars)

AGRICULTURE	Fiscal year ending March 31		Increase or decrease (-)
	1966 (estimated)	1965	
Production and marketing—			
Animal and animal products.....	19.1	17.7	1.4
Grants, contributions and subsidies to milk producers...	21.0		21.0
Plant and plant products.....	18.8	7.7	11.1
Administration and general.....	2.4	2.6	-0.2
	61.3	28.0	33.3
Agricultural stabilization board—net operating loss.....	40.7	57.1	-16.4
Land rehabilitation, irrigation and water storage projects...	32.3	26.4	5.9
Research.....	32.5	28.8	3.7
Health of animals.....	15.4	13.5	1.9
Farm Credit Corporation—net operating loss.....	1.2	0.5	0.7
Board of grain commissioners.....	7.4	6.6	0.8
Agricultural products board—net operating loss.....	1.7	0.3	1.4
Administration and general.....	5.1	4.5	0.6
	197.6	165.7	31.9

Atlantic Development Board

Expenditures in respect of the Atlantic Development Board total \$23 million compared with \$4 million in 1964-65. Progress payments are made from time to time on projects which have been approved by the Board.

TABLE 12
(in millions of dollars)

ATLANTIC DEVELOPMENT BOARD	Fiscal year ending March 31		Increase or decrease (-)
	1966 (estimated)	1965	
Payments to the Atlantic Development Board.....	20.0	3.6	16.4
Federal share of the cost of a trunk highway program.....	2.0		2.0
Administration and operation.....	0.9	0.7	0.2
	22.9	4.3	18.6

Atomic Energy

Expenditures by the government in respect of Atomic Energy of Canada Limited and the Atomic Energy Control Board are \$54 million compared with \$47 million in 1964-65.

Atomic Energy of Canada Limited received \$52 million in respect of its research program, of which \$40 million is for operation and maintenance and \$12 million for construction or acquisition of buildings, works, land and equipment. In 1964-65 the company received \$45 million of which \$35 million was for operation and maintenance and \$10 million for construction or acquisition.

The Atomic Energy Control Board received \$2 million (\$1 million in 1964-65) mainly for grants for researches and investigations.

TABLE 13
(in millions of dollars)

ATOMIC ENERGY	Fiscal year ending March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Atomic Energy of Canada Limited—			
Research program—			
Current operation and maintenance.....	39.5	34.9	4.6
Construction or acquisition of buildings, works, land and equipment.....	12.3	10.3	2.0
	51.8	45.2	6.6
Atomic Energy Control Board—			
Grants for researches and investigations with respect to atomic energy.....	1.6	1.2	0.4
Administration.....	0.2	0.2	
	1.8	1.4	0.4
	53.6	46.6	7.0

Canadian Broadcasting Corporation

Payments of \$99 million by the government to the Canadian Broadcasting Corporation and charged to budgetary expenditures are \$11 million more than the total of \$88 million in 1964-65.

Grants for net operating requirements in respect of the national broadcasting service are \$97 million, \$11 million more than in 1964-65. There are no grants for capital requirements charged to budgetary expenditure in 1965-66.

In addition loans to the corporation for capital expenditure amount to \$14 million in 1965-66.

TABLE 14
(in millions of dollars)

CANADIAN BROADCASTING CORPORATION	Fiscal year ending March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Grants in respect of the national broadcasting service—			
Net operating requirements.....	97.0	85.9	11.1
International broadcasting service.....	2.4	2.1	0.3
	99.4	88.0	11.4

Central Mortgage and Housing Corporation

Budgetary expenditures of the government in respect of Central Mortgage and Housing Corporation at \$19 million are \$4 million more than the total of \$15 million in 1964-65.

Loans in the amount of \$10 million, originally made to municipalities and municipal sewerage corporations, were forgiven by Central Mortgage and Housing Corporation pursuant to section 36G of the National Housing Act and written off to budgetary expenditure.

Contributions of \$5 million to provinces or municipalities for urban renewal are approximately the same as in 1964-65.

TABLE 15
(in millions of dollars)

CENTRAL MORTGAGE AND HOUSING CORPORATION	Fiscal year ending March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Loans forgiven by the corporation.....	10.3	7.0	3.3
Contributions to provinces or municipalities for urban renewal.....	4.9	4.8	0.1
Losses sustained—			
Federal-provincial projects.....	2.0	1.5	0.5
Sale of mortgages.....	0.7	0.4	0.3
	2.7	1.9	0.8
Housing research and community planning.....	1.5	1.3	0.2
	19.4	15.0	4.4

Citizenship and Immigration

Expenditures of the Department of Citizenship and Immigration are \$204 million in 1965-66 compared with \$180 million in the previous year.

Expenditures of the Indian affairs branch, which in previous years were included in the expenditures of the Department of Citizenship and Immigration, are now included in expenditures of the Department of Northern Affairs and National Resources and expenditures in respect of the national employment service, civilian rehabilitation branch, technical and vocational training branch, manpower consultative service and such parts of branches as relate to manpower, which in previous years were included in expenditures of the Department of Labour, are now included in expenditures of the Department of Citizenship and Immigration.

Payments of \$119 million to provinces under the Technical and Vocational Training Assistance Act, from which the Province of Quebec has opted out in part, are \$22 million more than the 1964-65 total, payments of \$40 million under the municipal winter works incentive program to provinces and in respect of Indian bands are \$2 million less, outlays of \$23 million in respect of the national employment service are \$2 million more and immigration expenditures of \$15 million are \$3 million higher.

TABLE 16
(in millions of dollars)

CITIZENSHIP AND IMMIGRATION	Fiscal year ending March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Technical and Vocational Training Assistance Act—			
Payments to provinces.....	119.0	97.3	21.7
Administration and general.....	1.2	0.6	0.6
	120.2	97.9	22.3
Payments to provinces under the municipal winter works incentive program.....	40.4	42.8	—2.4
National employment service—			
Administration.....	22.3	21.2	1.1
Manpower mobility.....	0.5		0.5
	22.8	21.2	1.6
Immigration.....	15.0	12.2	2.8
Citizenship.....	2.1	1.8	0.3
Administration and general.....	3.2	3.8	—0.6
	203.7	179.7	24.0

External Affairs

Expenditures of the Department of External Affairs are \$154 million for 1965–66, \$23 million more than the total for the previous year.

TABLE 17
(in millions of dollars)

EXTERNAL AFFAIRS	Fiscal year ending March 31		Increase or decrease (—)
	1966 (estimated)	1965	
External aid office—			
Economic, technical, education and other assistance—			
International food aid program.....	34.3	20.6	13.7
International development assistance.....	48.5	48.5	
Contribution to the Indus Basin development fund..	1.7	6.4	—4.7
Other.....	0.1	5.1	—5.0
Administration.....	1.1	0.8	0.3
	85.7	81.4	4.3
Representation abroad.....	19.6	17.0	2.6
Contributions to international multilateral economic and special aid programs.....	18.1	9.8	8.3
Assessments for membership in the international (including commonwealth) organizations.....	10.3	9.0	1.3
Other payments to international organizations and programs..	5.4	1.3	4.1
Administration and general.....	14.6	12.7	1.9
	153.7	131.2	22.5

Outlays of \$86 million by the external aid office are \$4 million more than in 1964–65. There is a decrease of \$5 million in contributions to the Indus Basin development fund and an increase of \$14 million for the international food aid program.

Costs of representation abroad at \$20 million are \$3 million higher than in 1964-65, contributions to international multilateral economic and special aid programs at \$18 million are \$8 million higher, assessments for membership in the international (including commonwealth) organizations at \$10 million are \$1 million higher and other payments to international organizations and programs at \$5 million are \$4 million higher.

Finance

Expenditures of the Department of Finance are \$1,830 million for 1965-66, \$207 million more than the previous year's total due mainly to increases of \$115 million in payments to provinces, \$34 million in public debt charges and \$27 million in respect of forgiveness of indebtedness under the Municipal Development and Loan Act.

TABLE 18
(in millions of dollars)

FINANCE	Fiscal year ending March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Public debt charges.....	1,085.0	1,051.3	33.7
Fiscal, subsidy and other payments to provinces.....	473.3	358.4	114.9
Public service superannuation account—			
Government's contribution.....	58.0	55.6	2.4
Amortization of deferred charges.....	25.6	10.0	15.6
	83.6	65.6	18.0
Canadian Wheat Board—			
Carrying costs of temporary wheat reserves.....	37.5	34.0	3.5
Prairie Grain Advance Payments Act.....	0.5	0.6	—0.1
	38.0	34.6	3.4
Grants to municipalities in lieu of taxes on federal property..	36.9	35.7	1.2
Forgiveness of indebtedness—municipal development and loan board.....	30.0	2.6	27.4
Grants to universities—			
Payments to the Canadian Universities Foundation.....	27.8	27.3	0.5
Office of the Comptroller of the Treasury.....	25.0	24.9	0.1
Government's share of surgical-medical insurance premiums.	9.7	9.3	0.4
Government's contribution as an employer to the unem- ployment insurance fund.....	1.1	0.9	0.2
Administration and general.....	19.6	12.1	7.5
	1,830.0	1,622.7	207.3

Public debt charges

Public debt charges are again the third largest item of budgetary expenditure, exceeded only by those for defence and those for health, welfare and social security.

Public debt charges consist of interest on the public debt, the annual amortization of bond discounts and commissions, the cost of issuing new loans and other costs incurred in servicing the public debt. These charges are \$1,085 million for 1965-66 or 14 per cent of all budgetary expenditure compared with \$1,051 million or 14 per cent for 1964-65.

Interest on public debt amounts to \$1,052 million of which \$823 million is in respect of unmatured debt and \$229 million in respect of other liabilities. In 1964-65 total interest was \$1,012 million of which \$803 million was for unmatured debt and \$209 million for other liabilities.

The increase of \$20 million in interest on unmatured debt reflects higher interest rates and an increase in unmatured debt. The increase in interest on other liabilities is due mainly to increases of \$7 million in respect of the public service superannuation account and \$11 million in respect of the Canadian forces superannuation account.

Other public debt charges at \$33 million are \$6 million less than in 1964-65, attributable to lower expenditures in respect of annual amortization of bond discounts and commissions.

TABLE 19
(in millions of dollars)

INTEREST AND OTHER PUBLIC DEBT CHARGES	Fiscal year ending March 31		Increase or decrease (-)
	1966 (estimated)	1965	
Interest on public debt—			
Unmatured debt including treasury bills—			
Payable in Canada.....	806.8	786.2	20.6
Payable in New York.....	16.3	16.4	-0.1
	823.1	802.6	20.5
Other liabilities—			
Annuity, insurance and pension accounts.....	225.7	206.3	19.4
Deposit and trust accounts.....	3.2	3.2	
	228.9	209.5	19.4
Total interest on public debt.....	1,052.0	1,012.1	39.9
Other public debt charges—			
Annual amortization of bond discounts and commissions.....	30.2	36.4	-6.2
Cost of issuing new loans.....	1.8	1.8	
Servicing of public debt.....	1.0	1.0	
	33.0	39.2	-6.2
	1,085.0	1,051.3	33.7

When considering the magnitude of these public debt charges and the burden they place upon the public treasury, it must be borne in mind that a substantial portion of the debt is attributable to, or is invested in, productive or earning assets. Therefore, in calculating the *net* burden of the government's annual interest charges, the income derived from loans, investments and other productive assets must be taken into account. For 1965-66 this income totals \$436 million as shown in the non-tax revenue section under the heading "return on investments". This amount deducted from the gross total of \$1,052 million for interest as shown in the table leaves a net amount of \$616 million compared with a net of \$589 million in 1964-65. Measured as a percentage of the net debt the burden of the net annual interest charges is 3.96 per cent in 1965-66 compared with 3.80 per cent in 1964-65.

TABLE 20
(in millions of dollars)

NET BURDEN OF ANNUAL INTEREST CHARGES	Fiscal year ending March 31		Increase or decrease (-)
	1966 (estimated)	1965	
Total interest on public debt.....	1,052.0	1,012.1	39.9
Less return on investments.....	-436.0	-422.7	-13.3
Net interest cost.....	616.0	589.4	26.6
Net interest cost as a percentage of net debt.....	3.96	3.80	

Fiscal, subsidy and other payments to provinces

Payments to provinces in the amount of \$473 million are \$115 million higher than in 1964-65.

However, in addition to the above payments, \$475 million in provincial income taxes collected by the federal government on behalf of the provinces has been allocated to the provincial tax collection agreements account under the terms of the Federal-Provincial Fiscal Arrangements Act. A more detailed explanation of these arrangements is given in the tax revenue section of this Part.

TABLE 21
(in millions of dollars)

FISCAL, SUBSIDY AND OTHER PAYMENTS TO PROVINCES	Fiscal year ending March 31		Increase or decrease (-)
	1966 (estimated)	1965	
Payments under the Federal-Provincial Fiscal Arrangements Act and the Federal-Provincial Fiscal Revision Act (youth allowances).....	351.2	321.3	29.9
Payments under the Established Programs (Interim Arrangements) Act ⁽¹⁾	86.7		86.7
Statutory subsidies.....	23.6	23.6	
Transfer of certain public utility tax receipts.....	8.4	9.7	-1.3
Crown Corporations (Provincial Taxes and Fees) Act.....		3.8	-3.8
Payments under the Federal-Provincial Tax Sharing Arrangements Act.....	3.4		3.4
	473.3	358.4	114.9

⁽¹⁾ Payments made to the Province of Quebec in respect of opting out agreements.

A summary of payments, by provinces, during 1965-66 is given in the following table:

TABLE 22
(in millions of dollars)

FISCAL, SUBSIDY AND OTHER PAYMENTS TO PROVINCES	Fiscal year ending March 31, 1966 (estimated)						
	Payments under fiscal arrangements	Payments under Interim Arrangements Act	Statutory subsidies	Payments under the Federal-Provincial Fiscal Revision Act (youth allowances)	Transfer of certain public utility tax receipts	Payments under Federal-Provincial Tax Sharing Arrangements Act	Total
Newfoundland.....	41.6		1.7		0.2	0.3	43.8
Prince Edward Island.....	9.7		0.7		0.1	⁽¹⁾	10.5
Nova Scotia.....	47.3		2.1		0.8	0.4	50.6
New Brunswick.....	42.8		1.7		0.1	0.3	44.9
Quebec.....	⁽²⁾ 136.1	86.7	4.0	4.9 Cr.	2.2	0.1 Cr.	224.0
Ontario.....	16.8		4.6		1.1		22.5
Manitoba.....	27.8		2.1		0.1	0.5	30.5
Saskatchewan.....	28.7		2.1		⁽¹⁾	0.4	31.2
Alberta.....	5.3		2.9		3.1	0.7	12.0
British Columbia.....			1.7		0.7	0.9	3.3
	356.1	86.7	23.6	4.9 Cr.	8.4	3.4	473.3

⁽¹⁾ Less than \$50,000.

⁽²⁾ The credit of \$4.9 million under the Federal-Provincial Fiscal Revision Act (youth allowances) will be recovered from this amount.

Public service superannuation account

The government's contribution to the public service superannuation account, in an amount equal to the estimated current and prior service payments of individuals in 1964-65, is \$58 million in 1965-66. In the previous fiscal year the government's contribution was \$56 million.

A further amount of \$26 million, equal to one fifth of the actuarial deficiency arising out of pay increases, has been charged to budgetary expenditure in 1965-66.

Canadian Wheat Board

Expenditures of the Canadian Wheat Board which were included under the Department of Trade and Commerce in 1964-65 are now included under the Department of Finance.

Expenditures during 1965-66 amount to \$38 million compared with \$35 million in the previous year and are mainly in respect of carrying costs of temporary wheat reserves.

Grants to municipalities

Payments to municipalities in lieu of taxes on federal property amount to \$37 million, \$1 million more than in 1964-65.

Forgiveness of indebtedness, the municipal development and loan board

Under the Municipal Development and Loan Act, advances are made to the municipal development and loan board to provide financial assistance by way of loans to municipalities to augment or accelerate capital works programs. The act also provides that the board shall, under certain conditions, forgive payment by the municipality of 25 per cent of the principal amount of the loan. During 1965-66 charges amount to \$30 million compared with \$3 million in the previous year.

Fisheries

Expenditures of the Department of Fisheries are \$35 million in 1965-66, an increase of \$10 million over the 1964-65 total, due mainly to outlays in respect of fisheries management and development.

TABLE 23
(in millions of dollars)

FISHERIES	Fiscal year ending March 31		Increase or decrease (-)
	1966 (estimated)	1965	
Fisheries management and development—			
Conservation and development service.....	11.3	8.3	3.0
Grants, contributions and subsidies.....	4.0	1.5	2.5
Industrial development service.....	3.1	1.3	1.8
Inspection service.....	2.6	2.3	0.3
Canadian share of the expenses of international com- missions.....	1.5	1.2	0.3
Other.....	2.3	2.3	
	24.8	16.9	7.9
Fisheries Research Board of Canada.....	9.2	7.4	1.8
Administration and general.....	1.4	1.3	0.1
	35.4	25.6	9.8

Forestry

Expenditures of the Department of Forestry amount to \$59 million compared with \$50 million in the previous fiscal year.

The increase is due mainly to higher expenditures in respect of programs for rural development under the Agricultural Rehabilitation and Development Act and the Maritime Marshland Rehabilitation Act of \$16 million compared with \$10 million in 1964-65.

Freight assistance and grain storage costs on western feed grains at \$21 million are \$2 million higher than in 1964-65, outlays for forestry at \$11 million are \$1 million higher and contributions to provinces for assistance in forest inventory, reforestation, forest fire protection, forest stand improvement and forest access road construction at \$8 million are \$1 million less.

TABLE 24
(in millions of dollars)

FORESTRY	Fiscal year ending March 31		Increase or decrease (-)
	1966 (estimated)	1965	
Freight assistance and grain storage costs on western feed grains.....	21.0	19.1	1.9
Rural development—			
Agricultural Rehabilitation and Development Act.....	15.0	9.4	5.6
Maritime Marshland Rehabilitation Act.....	1.0	0.6	0.4
	16.0	10.0	6.0
Forestry—			
Forest research.....	8.1	6.8	1.3
Forest products research.....	1.6	1.7	-0.1
Administration.....	1.2	1.0	0.2
	10.9	9.5	1.4
Contributions to the provinces—			
Assistance in forest inventory, reforestation, forest fire protection and forest stand improvement.....	5.9	5.7	0.2
Forest access road construction.....	2.0	2.8	-0.8
	7.9	8.5	-0.6
Administration and general.....	3.4	2.7	0.7
	59.2	49.8	9.4

Justice

Expenditures of the Department of Justice at \$12 million, of which \$9 million is for judges' salaries, travelling allowances and pensions and \$3 million for administration, are \$1 million more than in 1964-65.

TABLE 25
(in millions of dollars)

JUSTICE	Fiscal year ending March 31		Increase or decrease (-)
	1966 (estimated)	1965	
Legal and other services—			
Judges' salaries, travelling allowances and pensions.....	9.0	8.7	0.3
Administration and general.....	2.8	2.2	0.6
	11.8	10.9	0.9

Expenditures for correctional services, which previously were shown under the Department of Justice, are now shown under the Office of the Solicitor General and expenditures for the patent division, copyright and industrial designs division and the trade marks office are now shown under Privy Council.

Labour

Expenditures of the Department of Labour, including the Unemployment Insurance Commission, total \$123 million compared with \$119 million in 1964-65.

Expenditures in respect of the national employment service, civilian rehabilitation branch, technical and vocational training branch, manpower consultative service and such parts of branches as relate to manpower, which in previous years were shown under the Department of Labour, are now shown under the Department of Citizenship and Immigration.

TABLE 26
(in millions of dollars)

LABOUR	Fiscal year ending March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Unemployment Insurance Commission—			
Administration of the Unemployment Insurance Act....	33.1	33.1	
Government's contribution to the unemployment insurance fund.....	65.5	62.1	3.4
	98.6	95.2	3.4
Winter house building program.....	14.4	16.3	—1.9
Payments under the Government Employees Compensation Act.....	2.9	2.5	0.4
Administration and general.....	7.1	5.5	1.6
	123.0	119.5	3.5

Unemployment Insurance Commission

Expenditures for the commission amount to \$99 million including the government's contribution of \$65 million to the fund. In 1964-65 expenditures were \$95 million of which \$62 million was the government's contribution to the fund.

Unemployment benefit payments are not charged to budgetary expenditure but are paid from the fund which is financed by equal contributions from employees and employers, by interest earned on investments and by the government's contribution of an amount equal to one fifth of the combined employee-employer contributions. Further information about the fund is given under the liability category "annuity, insurance and pension accounts".

Winter house building program

Under the winter house building program payments are made, in accordance with terms and conditions approved by the Governor in Council, of \$500 per dwelling unit substantially built during the periods November 15, 1964 to March 31, 1965 and November 15, 1965 to April 15, 1966. In 1965-66 payments amount to \$14 million compared with \$16 million in the previous fiscal year.

Legislation

Costs of Legislation are \$15 million compared with \$14 million in 1964-65.

TABLE 27
(in millions of dollars)

LEGISLATION	Fiscal year ending March 31		Increase or decrease (—)
	1966 (estimated)	1965	
House of Commons.....	11.7	11.1	0.6
The Senate.....	2.7	2.7	
Library of Parliament.....	0.5	0.4	0.1
	14.9	14.2	0.7

Mines and Technical Surveys

Expenditures of the Department of Mines and Technical Surveys are \$109 million compared with \$94 million in the previous fiscal year.

The increase of \$14 million was due mainly to \$3 million for subventions in respect of electric power generated from eastern coal, for which there was no comparable expenditure in 1964-65, and to increases of \$3 million for marine surveys and research and \$3 million for research in astronomy and geophysics.

Expenditures of the water resources branch and the resource development branch, but excluding those parts of the said branches concerned with the administration of resources on Indian lands, contributions to provinces to assist in the development of roads leading to resources and expenditures made under the Atlantic Provinces Power Development Act, which previously were shown under the Department of Northern Affairs and National Resources, and expenditures of the National Energy Board, which previously were shown under the Department of Trade and Commerce, are now shown under the Department of Mines and Technical Surveys.

TABLE 28
(in millions of dollars)

MINES AND TECHNICAL SURVEYS	Fiscal year ending March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Dominion coal board.....	23.4	23.2	0.2
Emergency gold mining assistance.....	14.3	15.7	-1.4
Water resources.....	13.7	12.1	1.6
Marine surveys and research.....	12.2	9.0	3.2
Field and air surveys, mapping and aeronautical charting...	8.3	6.9	1.4
Geological research.....	7.9	6.9	1.0
Mining and metallurgical investigations and research.....	7.0	5.7	1.3
Contributions to provinces to assist in the development of roads leading to resources.....	6.7	6.1	0.6
Research in astronomy and geophysics.....	5.7	2.9	2.8
Subventions pursuant to the Atlantic Provinces Power Development Act in respect of electric power generated from eastern coal.....	2.5		2.5
Polar continental shelf.....	1.5	1.5	
Geographical surveys and research.....	0.9	0.7	0.2
National energy board.....	0.9	0.7	0.2
Administration and general.....	3.6	2.8	0.8
	108.6	94.2	14.4

National Capital Commission

Expenditures of the National Capital Commission are \$18 million compared with \$10 million in 1964-65.

Payments into the national capital fund amount to \$12 million, an increase of \$8 million over the previous year. Outlays for the operation and maintenance of parks, parkways, etc. at \$5 million are \$1 million more and interest charges of \$2 million are \$1 million less than in the previous fiscal year.

TABLE 29
(in millions of dollars)

NATIONAL CAPITAL COMMISSION	Fiscal year ending March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Operation and maintenance.....	4.6	3.4	1.2
Interest charges (net).....	1.9	2.5	—0.6
	6.5	5.9	0.6
Payment to the national capital fund.....	12.1	4.5	7.6
	18.6	10.4	8.2

National Health and Welfare

Expenditures of the Department of National Health and Welfare at \$1,178 million are \$123 million less than the previous year's total of \$1,301 million, due mainly to a decrease of \$120 million in the government's contribution under the Hospital Insurance and Diagnostic Services Act as a result of the Province of Quebec opting out of this program under a federal-provincial agreement.

TABLE 30
(in millions of dollars)

NATIONAL HEALTH AND WELFARE	Fiscal year ending March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Welfare services—			
Family allowances.....	552.0	545.8	6.2
Youth allowances.....	46.5	26.9	19.6
Old age assistance.....	27.0	45.0	—18.0
Blind persons allowances.....	3.6	5.6	—2.0
Disabled persons allowances.....	14.8	23.4	—8.6
Unemployment assistance.....	104.6	107.5	—2.9
Fitness and amateur sport.....	2.0	2.0	
Family assistance.....	2.8	2.1	0.7
Other.....	7.0	6.3	0.7
	760.3	764.6	—4.3
Health services—			
Government's contributions under the Hospital Insurance and Diagnostic Services Act.....	314.0	433.9	—119.9
Grants to provinces—			
General health.....	32.0	35.2	—3.2
Hospital construction.....	20.0	21.5	—1.5
Other.....	7.0	6.8	0.2
	373.0	407.4	—124.4
Medical services.....	37.5	32.5	5.0
Food and drug services.....	5.3	4.3	1.0
Administration and general.....	2.3	2.3	
	1,178.4	1,301.1	—122.7

Welfare services account for \$760 million, \$4 million less than in 1964-65, health services account for \$373 million compared with \$497 million and medical services account for \$37 million compared with \$32 million in the previous fiscal year.

Family allowances

Family allowances are payable in respect of all children under sixteen years of age, resident in Canada, with minor exceptions such as in the case of children of immigrants who must reside in Canada one year before an allowance is payable. The monthly allowance is \$6 if the child is under 10 years of age and \$8 in the age group 10 to 15. Children of immigrants receive family assistance at the same rates during their first year of residence in Canada. As family assistance in 1964-65 was paid from a Department of Citizenship and Immigration vote the 1964-65 figures in the previous table have been adjusted accordingly.

In 1965-66 payments of \$552 million account for 7 per cent of all budgetary expenditure compared with \$546 million and 8 per cent in 1964-65. The increase of \$6 million reflects the increase in the number of children in the eligible age groups.

TABLE 31
(in millions of dollars)

FAMILY ALLOWANCES PAYMENTS	Fiscal year ending March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Newfoundland.....	16.5	16.9	-0.4
Nova Scotia.....	21.6	21.8	-0.2
Prince Edward Island.....	3.2	3.3	-0.1
New Brunswick.....	18.9	19.1	-0.2
Quebec.....	166.1	163.9	2.2
Ontario.....	182.4	179.0	3.4
Manitoba.....	25.9	25.9	
Saskatchewan.....	26.9	26.9	
Alberta.....	42.3	42.0	0.3
British Columbia.....	47.0	45.7	1.3
Northwest and Yukon Territories.....	1.2	1.3	-0.1
	552.0	545.8	6.2

Youth allowances

Under the Youth Allowances Act which was given Royal Assent on July 16, 1964, payments were effective from September 1964. Under provisions of this act payments of \$10 per month are payable in respect of persons resident in Canada, other than those resident in the Province of Quebec, who have attained the age of 16 years and have not attained the age of 18 years who are in full time attendance at a school or university or are by reason of mental or physical infirmity precluded from attending school or university. During 1965-66 payments amount to \$47 million compared with \$27 million in 1964-65.

TABLE 32
(in millions of dollars)

YOUTH ALLOWANCES PAYMENTS	Fiscal year ending March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Newfoundland.....	1.5	0.9	0.6
Nova Scotia.....	2.6	1.6	1.0
Prince Edward Island.....	0.3	0.2	0.1
New Brunswick.....	2.3	1.4	0.9
Ontario.....	21.8	12.7	9.1
Manitoba.....	3.3	1.9	1.4
Saskatchewan.....	3.4	2.0	1.4
Alberta.....	4.8	2.8	2.0
British Columbia.....	5.9	3.4	2.5
Northwest and Yukon Territories.....	0.6	(1)	0.6
	46.5	26.9	19.6

(1) Less than \$50,000.

Old age assistance, disabled persons allowances, blind persons allowances and unemployment assistance

Under the Old Age Assistance Act, the federal government reimburses the provinces by paying 50 per cent of the lesser of \$75 monthly or the amount of assistance given by the provinces in the form of monthly pensions to eligible persons in need who are in the age group 65 to 69. (Under the Old Age Security Act, all persons who satisfy the residence requirements of the act may receive a pension of \$75 per month from the federal government out of the old age security fund provided that no pension is paid in any month before January 1966 in which the person had not attained 70 years of age, the age limit being reduced by one in each subsequent year until 1970.) Similarly, the federal government reimburses the provinces under the Blind Persons Act for allowances of not more than \$75 per month to blind persons in need 18 years of age or over by paying 75 per cent of the total payments, and under the Disabled Persons Act by paying 50 per

TABLE 33
(in millions of dollars)

FEDERAL SHARE OF OLD AGE ASSISTANCE, DISABLED PERSONS ALLOWANCES, BLIND PERSONS ALLOWANCES AND UNEMPLOYMENT ASSISTANCE	Fiscal year ending March 31, 1966 (estimated)			
	Old age assistance	Disabled persons allowances	Blind persons allowances	Unemploy- ment assistance
Newfoundland.....	2.0	0.8	0.2	4.6
Nova Scotia.....	2.2	1.5	0.5	1.5
Prince Edward Island.....	0.4	0.4	0.1	0.2
New Brunswick.....	2.2	1.3	0.4	1.5
Quebec.....				24.8
Ontario.....	10.9	7.3	1.2	28.1
Manitoba.....	2.2	0.7	0.3	5.5
Saskatchewan.....	2.2	0.9	0.2	5.4
Alberta.....	2.4	0.9	0.3	12.2
British Columbia.....	2.4	1.0	0.4	20.6
Northwest and Yukon Territories.....	0.1	(1)	(1)	0.2
	27.0	14.8	3.6	104.6

(1) Less than \$50,000.

cent of not more than \$75 per month for allowances to disabled persons in need 18 years of age or over. In 1965-66 payments for old age assistance amount to \$27 million, for disabled persons allowances \$15 million and for blind persons allowances \$4 million. In 1964-65 payments were \$45 million for old age assistance, \$23 million for disabled persons allowances and \$6 million for blind persons allowances. The decreases are due to the opting out of these programs by the Province of Quebec under federal-provincial agreement.

Under the Unemployment Assistance Act, the Minister may, with the approval of the Governor in Council, enter into an agreement with any province for the payment by Canada to the province of contributions not exceeding 50 per cent of unemployment assistance costs in the province. Contributions in 1965-66 are \$105 million compared with \$108 million in 1964-65. The decrease is due to the opting out of a portion of this program by the Province of Quebec under federal-provincial agreement.

The following table presents a distribution of these payments to provinces for 1965-66:

Government's contributions under the Hospital Insurance and Diagnostic Services Act

Contributions of \$314 million to the provinces under the Hospital Insurance and Diagnostic Services Act are \$120 million less than the 1964-65 total of \$434 million, due mainly to the Province of Quebec opting out of this program.

TABLE 34
(in millions of dollars)

GOVERNMENT'S CONTRIBUTIONS UNDER THE HOSPITAL INSURANCE AND DIAGNOSTIC SERVICES ACT	Fiscal year ending March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Newfoundland.....	9.7	9.6	0.1
Nova Scotia.....	18.4	15.9	2.5
Prince Edward Island.....	2.0	2.1	-0.1
New Brunswick.....	11.6	13.8	-2.2
Quebec.....		128.2	-128.2
Ontario.....	159.4	151.5	7.9
Manitoba.....	20.3	20.9	-0.6
Saskatchewan.....	23.3	23.5	-0.2
Alberta.....	32.5	31.4	1.1
British Columbia.....	36.0	36.1	-0.1
Northwest and Yukon Territories.....	0.8	0.9	-0.1
	314.0	433.9	-119.9

General health grants and hospital construction grants to provinces

Grants to provinces for general health services total \$32 million and for hospital construction \$20 million compared with \$35 million and \$22 million respectively in 1964-65. The decrease is partially due to the opting out of a portion of this program by the Province of Quebec under federal-provincial agreement.

TABLE 35
(in millions of dollars)

GENERAL HEALTH GRANTS AND HOSPITAL CONSTRUCTION GRANTS	Fiscal year ending March 31, 1966 (estimated)		
	General health grants	Hospital construction grants	Total
Newfoundland.....	1.1	0.6	1.7
Nova Scotia.....	1.8	0.7	2.5
Prince Edward Island.....	0.4	(1)	0.4
New Brunswick.....	1.5	0.7	2.2
Quebec.....	3.3	5.7	9.0
Ontario.....	12.0	7.0	19.0
Manitoba.....	2.6	1.0	3.6
Saskatchewan.....	2.5	1.0	3.5
Alberta.....	2.9	2.3	5.2
British Columbia.....	3.7	1.0	4.7
Northwest and Yukon Territories.....	0.2	(1)	0.2
	32.0	20.0	52.0

(1) Less than \$50,000.

National Research Council, including the Medical Research Council

Expenditures of the National Research Council, including the Medical Research Council, are \$74 million, an increase of \$17 million over the previous year's total.

Outlays of \$33 million in respect of scholarships and grants in aid of research account for \$10 million of the increase and higher outlays of \$32 million for administration account for \$5 million.

TABLE 36
(in millions of dollars)

NATIONAL RESEARCH COUNCIL, INCLUDING THE MEDICAL RESEARCH COUNCIL	Fiscal year ending March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Scholarships and grants in aid of research.....	33.3	23.3	10.0
Construction or acquisition of buildings, works, land and equipment.....	5.9	4.5	1.4
Assistance towards research in industry.....	3.4	2.2	1.2
Administration and general.....	31.5	26.6	4.9
	74.1	56.6	17.5

National Revenue

Expenditures of the Department of National Revenue amount to \$95 million, an increase of \$8 million over the 1964-65 total of \$87 million.

TABLE 37
(in millions of dollars)

NATIONAL REVENUE	Fiscal year ending March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Customs and excise.....	48.2	44.2	4.0
Taxation.....	46.7	42.4	4.3
Income tax appeal board.....	0.3	0.3	
	95.2	86.9	8.3

Northern Affairs and National Resources

Expenditures of the Department of Northern Affairs and National Resources, including the Indian affairs branch, are \$153 million compared with \$127 million in the previous year.

Expenditures of the Indian affairs branch, which in previous years were included under the Department of Citizenship and Immigration, are now included in expenditures of the Department of Northern Affairs and National Resources. Expenditures pursuant to the Atlantic Provinces Power Development Act and expenditures in respect of water resources and resource development (excluding those parts concerned with the administration of resources on Indian lands) which in previous years were included under the Department of Northern Affairs and National Resources are now included in expenditures of the Department of Mines and Technical Surveys.

TABLE 38
(in millions of dollars)

NORTHERN AFFAIRS AND NATIONAL RESOURCES	Fiscal year ending March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Indian affairs—			
Education.....	40.7	35.7	5.0
Social programs.....	25.0	16.7	8.3
Indian agencies.....	7.7	6.5	1.2
Economic development.....	4.5	2.4	2.1
Community employment program.....	1.4	1.7	—0.3
Administration and general.....	2.2	1.8	0.4
	81.5	64.8	16.7
Northern administration.....	40.1	35.8	4.3
National parks.....	29.5	25.1	4.4
Administration and general.....	2.1	1.7	0.4
	153.2	127.4	25.8

Indian affairs expenditures are \$82 million, an increase of \$17 million over the previous year's total. There are increases of \$8 million in respect of social programs, \$5 million for education, \$2 million for economic development and \$1 million for Indian agencies.

Outlays of \$40 million in respect of northern administration are \$4 million more than in 1964-65 and outlays of \$29 million in respect of national parks are \$4 million more than in the previous fiscal year.

Post Office

Costs of the Post Office Department charged to budgetary expenditure at \$239 million are \$29 million more than in 1964-65 due mainly to normal staff growth and to salary increases.

TABLE 39
(in millions of dollars)

POST OFFICE	Fiscal year ending March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Charged to budgetary expenditure—			
Operations—salaries and other expenses of staff post offices, district offices and railway mail services; and supplies and equipment and other items for revenue post offices.....	159.5	135.4	24.1
Transportation—movement of mail by land, air and water.....	72.7	69.1	3.6
Financial services.....	3.6	3.4	0.2
Administration and general.....	3.4	2.6	0.8
	239.2	210.5	28.7
Charged to revenue—			
Operations—salaries of postmasters and staffs at revenue and semi-staff offices, commissions paid at sub-offices and other disbursements.....	37.0	33.3	3.7
	276.2	243.8	32.4

Costs of operations at \$160 million are \$24 million more than in the previous fiscal year and costs of movement of mail at \$73 million are \$4 million more.

Remuneration of postmasters and staffs at revenue and semi-staff offices and certain other authorized disbursements are paid from revenue. These payments at \$37 million (\$4 million more than in 1964-65) bring gross post office expenditures to \$276 million in 1965-66.

Public Works

Expenditures of the Department of Public Works amount to \$259 million, \$35 million more than in 1964-65.

Accommodation services

Expenditures for these services are \$109 million, \$21 million higher than the 1964-65 total.

Maintenance and operation of public buildings and grounds at \$72 million are \$17 million higher and construction or acquisition of buildings, etc. at \$35 million are \$5 million higher than in 1964-65.

Harbours and rivers engineering services

Expenditures for these services total \$36 million, \$6 million higher than in 1964-65 due mainly to an increase in outlays for construction or acquisition, etc. of harbour and river works which are \$28 million compared with \$23 million in the previous fiscal year.

Roads, bridges and other engineering services

Expenditures for these services total \$89 million, \$2 million higher than in 1964-65. Contributions of \$80 million to provinces in respect of the trans-Canada highway are \$4 million higher.

TABLE 40
(in millions of dollars)

PUBLIC WORKS	Fiscal year ending March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Accommodation services—			
Maintenance and operation of public buildings and grounds—			
Ottawa and Hull.....	27.8	20.2	7.6
Other than Ottawa and Hull.....	41.3	33.2	8.1
Office furniture and furnishings.....	3.2	2.3	0.9
Acquisition of equipment and furnishings other than office furnishings.....	1.3	1.5	—0.2
Construction, acquisition, major repairs, etc. of public buildings—			
Ottawa.....	17.5	15.1	2.4
Other than Ottawa.....	17.6	15.1	2.5
	103.7	87.4	21.3
Harbours and rivers engineering services—			
Operation and maintenance.....	7.9	7.0	0.9
Construction or acquisition of equipment.....	0.5	0.7	—0.2
Construction, acquisition, major repairs, etc. of harbour and river works.....	27.5	22.5	5.0
Dry dock subsidies.....	0.2	0.1	0.1
	36.1	30.3	5.8
Roads, bridges and other engineering services—			
Operation and maintenance.....	5.2	9.0	—3.8
Construction, acquisition, major repairs and improvements of, and plans and sites for, roads, bridges and other engineering works.....	3.9	2.4	1.5
Trans-Canada highway—			
Contributions to provinces under terms of the Trans-Canada Highway Act.....	80.0	76.1	3.9
Construction through national parks.....	0.3	0.2	0.1
	89.4	87.7	1.7
Testing laboratories.....	1.1	1.0	0.1
Federal share of an ice control structure.....	8.9	5.8	3.1
Administration and general.....	15.2	11.8	3.4
	259.4	224.0	35.4

Royal Canadian Mounted Police

Expenditures of the Royal Canadian Mounted Police are \$82 million compared with \$76 million in the previous fiscal year. Receipts of \$16 million, arising

TABLE 41
(in millions of dollars)

ROYAL CANADIAN MOUNTED POLICE	Fiscal year ending March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Land, air and training divisions.....	59.4	55.9	3.5
Headquarters administration and national police services...	10.7	9.8	0.9
Pensions and other benefits—			
Pensions.....	4.5	4.1	0.4
Royal Canadian Mounted Police superannuation account—			
Government's contribution.....	3.9	3.2	0.7
Amortization of deferred charges.....	1.1	1.0	0.1
Other.....	0.2	0.2	
	9.7	8.5	1.2
Marine services.....	2.2	2.0	0.2
	82.0	76.2	5.8

out of expenditures for policing certain provinces, territories and municipalities, are credited to revenue. In 1964-65 receipts of \$16 million were credited to revenue.

Secretary of State

Expenditures of the Department of the Secretary of State amount to \$26 million, an increase of \$4 million over the previous fiscal year's total.

Centennial Commission expenditures of \$20 million are \$13 million higher than in 1964-65 due mainly to increases of \$7 million in outlays for programs and projects of national significance and \$5 million in payments to the centennial of confederation fund to enable grants to be made to the provinces for local projects of a lasting nature.

Outlays of \$3 million in respect of the translation bureau and \$2 million in respect of the National Museum of Canada are both slightly higher than in 1964-65.

There is no comparable expenditure in 1965-66 to the special grant of \$10 million made in 1964-65 under the Canada Council Act.

TABLE 42
(in millions of dollars)

SECRETARY OF STATE	Fiscal year ending March 31		Increase or decrease (-)
	1966 (estimated)	1965	
Centennial Commission—			
Programs and projects of national significance.....	9.0	2.5	6.5
Payment to the centennial of confederation fund.....	9.0	4.0	5.0
General administration.....	2.0	0.8	1.2
	20.0	7.3	12.7
Translation Bureau.....	2.8	2.2	0.6
National Museum of Canada.....	1.8	1.4	0.4
Special grants—Canada Council Act.....		10.0	-10.0
Administration and general.....	1.2	1.0	0.2
	25.8	21.9	3.9

Office of the Solicitor General

Expenditures of the Office of the Solicitor General amount to \$57 million compared with \$39 million in the previous fiscal year.

The increase of \$18 million is due mainly to increases of \$15 million in outlays for construction or acquisition of buildings, etc. and \$3 million in outlays for operation and maintenance of penitentiaries.

Correctional services expenditures which in previous years were shown under the Department of Justice are now shown under the Office of the Solicitor General.

TABLE 43
(in millions of dollars)

OFFICE OF THE SOLICITOR GENERAL	Fiscal year ending March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Correctional services—			
Administration of the Canadian penitentiaries service...	0.9	0.8	0.1
Operation and maintenance of penitentiaries.....	27.1	23.8	3.3
Parole Act administration.....	0.8	0.8	
Construction or acquisition of buildings, works, land and equipment.....	28.4	13.6	14.8
Other.....	0.1		0.1
	57.3	39.0	18.3

Trade and Commerce

Expenditures of the Department of Trade and Commerce at \$47 million are \$8 million less than in 1964-65.

Outlays of \$5 million in respect of the Canadian corporation for the 1967 world exhibition compare with \$20 million in 1964-65. The decrease is due mainly to the fact that no payment is being made to the corporation in 1965-66 comparable to the payment of \$19 million in 1964-65, pursuant to sec. 11 of the Canadian Corporation for the World Exhibition Act, partly offset by an increase of of \$4 million for Canadian government participation in the exhibition.

Outlays of \$16 million in respect of the Dominion Bureau of Statistics are \$2 million higher than in 1964-65 and outlays of \$6 million for the Canadian government travel bureau are \$2 million higher.

Expenditures of the Canadian Wheat Board and of the National Energy Board, which in previous years were included in expenditures of the Department of Trade and Commerce are now included in expenditures of the Departments of Finance and Mines and Technical Surveys, respectively.

TABLE 44
(in millions of dollars)

TRADE AND COMMERCE	Fiscal year ending March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Dominion Bureau of Statistics.....	15.8	13.5	2.3
Trade commissioner service.....	7.6	6.8	0.8
Canadian government travel bureau.....	6.4	4.9	1.5
Canadian corporation for the 1967 world exhibition—			
Canadian government participation.....	5.0	0.8	4.2
Payment to the corporation.....		18.6	-18.6
Acquisition of land.....		0.1	-0.1
	5.0	19.5	-14.5
Standards branch.....	3.6	3.3	0.3
Administration and general.....	8.4	6.7	1.7
	46.8	54.7	-7.9

Transport

Expenditures of the Department of Transport are \$524 million compared with \$466 million in 1964-65.

TABLE 45
(in millions of dollars)

TRANSPORT	Fiscal year ending March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Air services—			
Airports and other ground services.....	50.0	46.8	3.2
Radio aids to air and marine navigation.....	40.2	36.5	3.7
Meteorological services.....	22.0	21.8	0.2
Air traffic control.....	10.0	9.4	0.6
Control of civil aviation.....	6.3	6.7	—0.4
Radio Act and Regulations.....	4.1	3.5	0.6
Administration and general.....	8.6	6.7	1.9
	141.2	131.4	9.8
Railways and steamships—			
Construction or acquisition.....	26.6	10.2	16.4
Maritime Freight Rates Act—			
Difference between tariffs and normal tolls.....	15.3	14.7	0.6
Railway to Great Slave Lake.....	12.0	24.1	—12.1
Victoria Bridge.....	0.8	0.9	—0.1
Deficits—			
Canadian National Railways.....	33.4	38.7	—5.3
Newfoundland ferry and terminals.....	12.7	11.1	1.6
Prince Edward Island car ferry and terminals.....	4.1	4.0	0.1
Yarmouth, N.S.—Bar Harbour, Maine, U.S.A. ferry service.....		0.1	—0.1
Other.....	1.0	0.2	0.8
	105.9	104.0	1.9
Board of Transport Commissioners for Canada—			
Payments to the railways for the maintenance of the rates of freight traffic.....	95.2	68.7	26.5
Maintenance of trackage.....	7.0	7.0	
Contributions to the railway grade crossing fund.....	14.0	5.1	8.9
Administration and general.....	1.6	1.5	0.1
	117.8	82.3	35.5
Marine services—			
Canadian coast guard.....	50.0	38.0	12.0
Aids to navigation.....	14.9	10.9	4.0
Canals.....	9.6	7.0	2.6
Marine hydraulics including the St. Lawrence and Saguenay Rivers ship channels.....	6.1	3.0	3.1
Marine regulations.....	5.0	4.4	0.6
Administration and general.....	1.6	1.2	0.4
	87.2	64.5	22.7
Canadian Maritime Commission.....	49.8	40.6	9.2
Canals and works entrusted to The St. Lawrence Seaway Authority—			
Welland Canal deficit 1965.....	8.3		8.3
Welland Canal deficit 1959-64.....		27.1	—27.1
Other operating deficit and capital requirements.....	2.2	1.9	0.3
	10.5	29.0	—18.5
National Harbours Board.....	5.1	7.6	—2.5
Administration and general.....	6.3	7.0	—0.7
	523.8	466.4	57.4

Air services

Outlays for air services at \$141 million are \$10 million higher than the 1964-65 total due mainly to an increase of \$3 million in respect of airports and other ground services and an increase of \$4 million for radio aids to air and marine navigation.

Railways and steamships

Expenditures for these services are \$106 million compared with \$104 million in 1964-65.

Costs of construction or acquisition of buildings, works, land, etc. are \$27 million, \$16 million higher than 1964-65 costs due mainly to improvements of the facilities, terminals, ships, etc., in the Port-aux-Basques—North Sydney ferry service; payments under the Maritime Freight Rates Act are \$15 million, \$1 million higher; and the subsidy of \$12 million in respect of a railway to Great Slave Lake is \$12 million less.

The charge of \$33 million to budgetary expenditure in 1965-66 to cover the 1965 operating deficit of the Canadian National Railways is \$5 million less than the charge of \$38 million in 1964-65 to cover the railway's 1964 operating deficit.

Board of Transport Commissioners

Expenditures in respect of the board amount to \$118 million compared with \$82 million in 1964-65.

Included are \$95 million in payments to the railways for the maintenance of the rates of freight traffic compared with \$69 million in 1964-65, \$7 million in each year in payments to the railways for maintenance of trackage in northern Ontario and \$14 million in contributions to the railway grade crossing fund compared with \$5 million in the previous year.

Marine services

Expenditures of \$87 million for marine services are \$23 million more than in 1964-65. Included in these expenditures are \$50 million in respect of the Canadian coast guard, \$12 million higher than in 1964-65 and \$15 million in respect of aids to navigation, \$4 million more than in the previous fiscal year. The aggregate increase is due to increased outlays for capital works.

Canadian Maritime Commission

Expenditures of the commission in the amount of \$50 million are \$9 million higher than in 1964-65 due mainly to increased outlays in respect of capital subsidies for the construction of commercial and fishing vessels.

Canals and works entrusted to The St. Lawrence Seaway Authority

Expenditures of \$11 million are \$18 million less than in 1964-65, due mainly to the fact that the 1964-65 total included a payment of \$27 million covering the accumulated Welland Canal deficit for 1959-64 whereas the 1965-66 total includes a payment of \$8 million for the Welland Canal deficit for 1965.

National Harbours Board

Non-active advances to the board total \$5 million and include \$4 million to cover expenditures in connection with the 1967 World Exhibition. In 1964-65 non-active advances totalled \$8 million and included \$6 million to cover expenditures in connection with the 1967 World Exhibition.

Veterans Affairs

Expenditures of the Department of Veterans Affairs are \$370 million, an increase of \$18 million over the 1964-65 total.

War veterans allowances and civilian allowances at \$100 million are \$7 million higher, pensions for disability and death at \$186 million are \$5 million higher and costs of \$50 million for treatment services are \$4 million higher than in 1964-65.

TABLE 46
(in millions of dollars)

VETERANS AFFAIRS	Fiscal year ending March 31		Increase or decrease (-)
	1966 (estimated)	1965	
Pensions—			
Disability and death.....	185.5	180.3	5.2
Administration and general.....	2.9 188.4	2.8 183.1	0.1 5.3
Welfare services, allowances and other benefits—			
War veterans allowances and civilian allowances.....	100.2	92.8	7.4
Assistance under provisions of the Assistance Fund (War Veterans Allowances) Regulations.....	5.8	4.0	1.8
Veterans welfare services.....	4.0	3.8	0.2
Treatment and related allowances.....	2.7	2.7	
Administration and general.....	3.4 116.1	3.5 106.8	-0.1 9.3
Treatment services.....	50.1	46.4	3.7
Soldier settlement and veterans land act—			
Provision for reserve for conditional benefits.....	3.0	3.1	-0.1
Administration and general.....	4.6 7.6	4.5 7.6	0.1
Administration and general.....	7.8	7.7	0.1
	370.0	351.6	18.4

All Other Departments

Expenditures of the departments not dealt with individually amount to \$65 million, an increase of \$27 million over the total for 1964-65.

Expenditures under the Combines Investigation Act in respect of the restrictive trade practices commission and the office of investigation and research and expenditures of the patent division, copyright and industrial designs division and the trade marks office, which were included previously under expenditures of the Department of Justice, are now included in expenditures of the Privy Council.

The main changes are an increase of \$13 million in respect of the Office of the Chief Electoral Officer due to the general election in 1965-66 and an increase of \$6 million in non-defence expenditures of the Department of Defence Production as a result of three new services (supply, purchasing and repair) coming into operation.

TABLE 47
(in millions of dollars)

ALL OTHER DEPARTMENTS	Fiscal year ending March 31		Increase or decrease (-)
	1966 (estimated)	1965	
Auditor General's Office.....	1.7	1.6	0.1
Board of Broadcast Governors.....	0.4	0.4	
Office of the Chief Electoral Officer.....	13.1	0.6	12.5
Civil Service Commission.....	8.2	6.2	2.0
Defence Production ⁽¹⁾	⁽²⁾ 9.0	3.3	5.7
Economic Council.....	1.1	0.8	0.3
Governor General and Lieutenant-Governors.....	0.7	0.6	0.1
Industry ⁽¹⁾	6.0	3.3	2.7
Insurance.....	1.5	1.4	0.1
National Film Board.....	6.9	6.4	0.5
National Gallery of Canada.....	1.9	1.3	0.6
Privy Council.....	9.1	8.2	0.9
Public Archives and National Library.....	1.9	1.5	0.4
Public Printing and Stationery.....	3.0	2.7	0.3
Office of the Representation Commissioner.....	0.8	0.2	0.6
	65.3	38.5	26.8

⁽¹⁾ See also under defence expenditure at the beginning of this section.

⁽²⁾ The Canadian government supply service, Canadian government purchasing service and the Canadian government repair service came into operation substantially in 1965-66 and are the cause of the large increase in non-defence expenditure.

ASSET AND LIABILITY ACCOUNTS

The estimated assets and liabilities of the Government of Canada as at March 31, 1966, the comparable balances at March 31, 1965 and the changes in each category during 1965-66, are shown in condensed form in the following table.

TABLE 48
SUMMARY OF ASSETS AND LIABILITIES OF CANADA
(in millions of dollars)

	Balance at March 31		Increase or decrease (—)
	1966 (estimated)	1965	
LIABILITIES			
Current and demand liabilities.....	1,467.2	1,432.6	34.6
Deposit and trust accounts.....	394.6	272.3	122.3
Annuity, insurance and pension accounts.....	6,381.2	5,675.9	705.3
Undisbursed balances of appropriations to special accounts..	87.6	95.7	—8.1
Deferred credits.....	136.1	113.2	22.9
Suspense accounts.....	13.8	5.5	8.3
Unmatured debt.....	19,136.6	18,978.2	158.4
Total liabilities.....	27,617.1	26,573.4	1,043.7
ASSETS			
Current assets.....	1,291.1	1,302.0	—10.9
Advances to the exchange fund account.....	2,672.0	2,621.0	51.0
Investments in special United States of America securities— Columbia River Treaty.....	187.2	219.5	—32.3
Sinking fund and other investments held for retirement of unmatured debt.....		5.4	—5.4
Canada pension plan investment account.....	34.0		34.0
Loans to, and investments in, Crown corporations.....	5,535.2	4,914.5	620.7
Loans to national governments.....	1,343.8	1,288.4	55.4
Other loans and investments.....	1,036.9	908.1	128.8
Securities held in trust.....	171.9	53.1	118.8
Deferred charges—			
Unamortized portions of actuarial deficiencies—			
Canadian forces superannuation account.....	54.0	53.8	0.2
Public service superannuation account.....	92.5	39.9	52.6
Royal Canadian Mounted Police superannuation ac- count.....	3.8	4.2	—0.4
Unamortized loan flotation costs.....	107.9	110.7	—2.8
	258.2	208.6	49.6
Capital assets.....	(1)	(1)	
Inactive loans and investments.....	94.8	94.8	
Total recorded assets.....	12,625.1	11,615.4	1,009.7
Less reserve for losses on realization of assets.....	—546.4	—546.4	
Net recorded assets.....	12,078.7	11,069.0	1,009.7
Net debt, represented by excess of liabilities over net re- corded assets.....	15,538.4	15,504.4	(2)34.0

(1) Shown at nominal value of \$1.

(2) Reflecting the budgetary deficit of \$34 million.

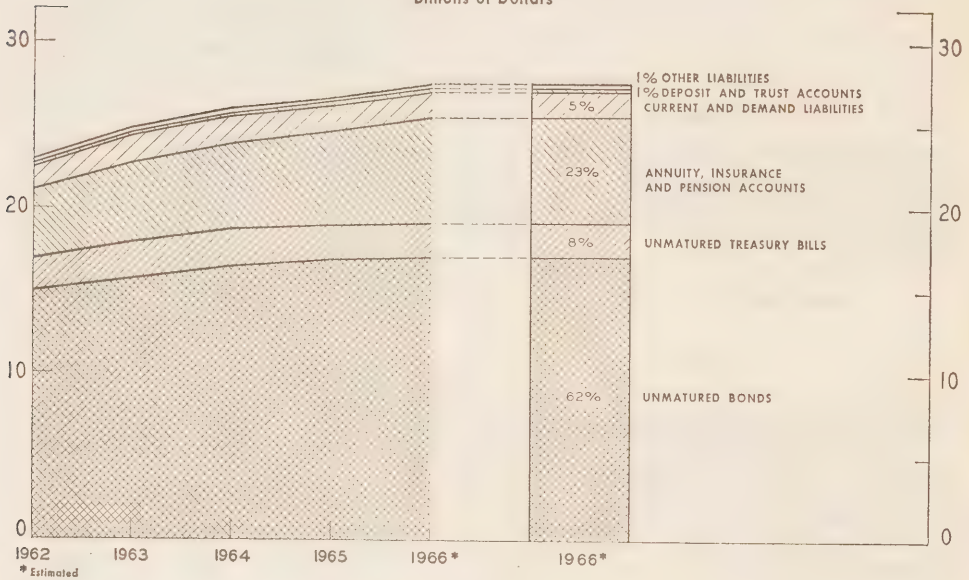
SUMMARY

The gross liabilities of the government are estimated at \$27,617 million as at March 31, 1966 compared with \$26,573 million at March 31, 1965. The main changes are increases of \$705 million in annuity, insurance and pension accounts, \$158 million in unmaturred debt and \$122 million in deposit and trust accounts.

Net recorded assets are estimated at \$12,079 million as at March 31, 1966 compared with \$11,069 million at March 31, 1965. The main changes are increases of \$621 million in loans to, and investments in, Crown corporations, \$144 million in securities held in trust and \$129 million in other loans and investments.

The net debt of Canada, or the excess of liabilities over net recorded assets, at \$15,538 million is \$34 million higher than the net debt of \$15,504 million at March 31, 1965, reflecting the 1965-66 budgetary deficit of \$34 million.

TOTAL LIABILITIES
Fiscal Years Ended March 31
Billions of Dollars



LIABILITY ACCOUNTS

Current and demand liabilities

These liabilities, which consist of obligations of the government payable currently or on demand, in the amount of \$1,467 million are \$35 million more than the total at March 31, 1965.

TABLE 49
(in millions of dollars)

CURRENT AND DEMAND LIABILITIES	Balance at March 31		Increase or decrease (-)
	1966 (estimated)	1965	
Outstanding treasury cheques.....	352.9	315.1	37.8
Accounts payable.....	412.9	363.9	49.0
Non-interest-bearing notes payable to—			
The international development association.....	25.0	22.9	2.1
The international monetary fund.....	235.0	345.0	-110.0
	260.0	367.9	-107.9
Matured debt outstanding.....	23.5	19.1	4.4
Interest due and outstanding.....	117.0	102.0	15.0
Interest accrued.....	267.6	231.2	36.4
Post office—outstanding money orders.....	26.4	26.6	-0.2
Outstanding letter of credit cheques.....	6.0	6.0	
Other current liabilities.....	0.9	0.8	0.1
	1,467.2	1,432.6	34.6

The main changes during 1965-66 are a decrease of \$108 million in non-interest-bearing notes payable on demand and increases of \$38 million in outstanding treasury cheques, \$49 million in accounts payable and \$36 million in accrued interest.

Non-interest-bearing notes represent those portions of Canada's equities in the capital of certain international agencies which are not covered by cash or gold. Notes in respect of the international monetary fund in the amount of \$235 million are \$110 million less than at March 31, 1965 and notes in respect of the international development association in the amount of \$25 million are \$2 million more.

Deposit and trust accounts

Sundry funds deposited with, or held in trust by, the Receiver General of Canada for various purposes are recorded in these accounts.

TABLE 50
(in millions of dollars)

DEPOSIT AND TRUST ACCOUNTS	Balance at March 31		Increase or decrease (-)
	1966 (estimated)	1965	
Indian trust funds.....	31.5	31.1	0.4
Guarantee deposits—			
National Revenue.....	5.6	5.3	0.3
Northern Affairs and National Resources.....	30.0	29.2	0.8
	35.6	34.5	1.1
Post office savings bank.....	22.2	23.3	-1.1
Crown corporations deposits—			
Atomic Energy of Canada Limited.....	5.0	5.0	
Canadian Arsenals Limited.....	0.1	0.1	
Crown Assets Disposal Corporation.....	0.4	0.4	
Eldorado Mining and Refining Limited.....	4.0	11.2	-7.2
Export Credits Insurance Corporation.....	14.0	10.0	4.0
	23.5	26.7	-3.2
Canadian Pension Commission—administration trust fund..	15.2	14.5	0.7
National Harbours Board—special accounts.....	13.4	13.5	4.9
Instalment purchase of bonds, public service.....	12.9	13.2	-0.3
Contractors holdbacks.....	9.1	8.8	0.3
Contractors securities—sundry departments—			
Bonds.....	2.5	4.2	-1.7
Cash.....	1.3	1.6	-0.3
Certified cheques.....	0.2	0.2	
	4.0	6.0	-2.0
Army benevolent fund.....	5.2	5.6	-0.4
Canadian Arsenals Limited pension fund.....	1.0	1.0	
Canadian vessel construction assistance.....	6.7		6.7
Common school funds—Ontario and Quebec.....	2.7	2.7	
Emergency gold mining assistance—holdbacks.....	2.2	2.3	-0.1
Immigration guarantee fund.....	1.5	1.3	0.2
National Research Council—special fund.....	2.3	2.3	
Northwest Territories revenue account.....	3.0	2.7	0.3
Permanent services deferred pay.....	3.3	3.4	-0.1
Provincial tax collection agreements account.....	50.7	48.8	1.9
Royal Canadian Mint—prepayments.....	0.5	3.1	-2.6
Municipal development and loan board—security deposits..	124.4	9.4	115.0
Veterans land act trust account—general.....	5.4	4.5	0.9
United States of America.....	1.2	1.6	-0.4
Veterans care trust fund.....	2.9	2.7	0.2
Other.....	9.2	9.3	-0.1
	394.6	272.3	122.3

There was a net increase of \$122 million during 1965-66 bringing the total to \$395 million at March 31, 1966 due mainly to an increase of \$115 million in the municipal development and loan board—security deposits account.

Annuity, insurance and pension accounts

Recorded herein are moneys held in the consolidated revenue fund to the credit of various annuity, insurance and pension accounts.

During 1965-66 an increase of \$705 million brings the total to \$6,381 million as at March 31, 1966. The main changes are increases of \$224 million in the public service superannuation account, \$163 million in the Canadian forces superannuation account, \$215 million in the old age security fund and a new account for the Canada pension plan which has a balance of \$80 million at March 31, 1966.

TABLE 51
(in millions of dollars)

ANNUITY, INSURANCE AND PENSION ACCOUNTS	Balance at March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Unemployment insurance fund.....	159.0	58.3	100.7
Less investment in bonds and accrued interest.....	-147.5	-44.0	-103.5
Uninvested funds on deposit with the government.....	11.5	14.3	-2.8
Superannuation accounts—			
Public service.....	2,385.8	2,161.8	224.0
Canadian forces.....	2,191.1	2,028.1	163.0
Royal Canadian Mounted Police.....	65.7	57.7	8.0
	4,642.6	4,247.6	395.0
Canada pension plan account.....	80.0		80.0
Government annuities.....	1,320.5	1,303.2	17.3
Old age security fund.....	215.0		215.0
Other.....	111.6	110.8	0.8
	6,381.2	5,675.9	705.3

Unemployment insurance fund

The balance in the fund at March 31, 1966 is \$159 million (of which \$22 million represents a liability for unredeemed warrants and deposits from employers) and consists of \$147 million invested in special government bonds (including accrued interest) and \$12 million on deposit with the Receiver General. The balance in the fund at March 31, 1965 was \$58 million (of which \$18 million represented a liability for unredeemed warrants and deposits from employers) consisting of \$44 million invested in special government bonds (including accrued interest) and \$14 million on deposit with the government.

Receipts of \$395 million during the fiscal year include employee and employer contributions of \$325 million, the government's contribution of \$65 million and \$5 million in interest from investments. As benefit payments total \$302 million, receipts exceed payments from the fund by \$93 million during 1965-66. Receipts during 1964-65 totalled \$375 million and included employee and employer contributions of \$311 million, the government's contribution of \$62 million and \$2 million in income from investments. Benefit payments during 1964-65 totalled \$335 million.

TABLE 52
(in millions of dollars)

UNEMPLOYMENT INSURANCE FUND	Fiscal year ending March 31				
	1962	1963	1964	1965	1966 (estimated)
Revenue—					
Contributions—					
Employee and employer ⁽¹⁾	277.8	286.4	296.6	310.8	325.4
Government ⁽²⁾	55.5	57.3	59.3	62.1	65.5
Net income from investments.....	6.2	2.5	1.1	1.8	4.6
Other income.....	0.1	0.1	0.1	0.1	0.1
	339.6	346.3	357.1	374.8	395.6
Expenditure—					
Benefit payments.....	-454.7	-403.2	-365.7	-335.0	-301.9
Interest on loans.....	-3.0		-0.2	-0.2	
Excess of revenue over expenditure or expenditure over revenue (-).....	-118.1	-56.9	-8.8	39.6	93.7
Balance at credit of fund at fiscal year-end.....	66.6	9.7	0.9	40.5	136.8
Unredeemed benefit warrants and deposits from employers.....	11.6	16.7	15.9	17.8	22.2
	78.2	26.4	16.8	58.3	159.0
Investment in bonds and accrued interest.....	-63.6	-11.8		-44.0	-147.5
Balance on deposit with the government.....	14.6	14.6	16.8	14.3	11.5

⁽¹⁾Contributions by employees and employers are on an equal basis.

⁽²⁾Government contribution is equal to 20 per cent of the combined employee-employer contributions.

Public service superannuation account

The balance of \$2,386 million in this account is \$224 million higher than the balance at the end of the previous fiscal year.

Receipts of \$290 million during the year consist of credits of \$78 million in respect of a salary revision made in 1965-66, contributions of \$65 million by individuals, a contribution of \$58 million by the government, contributions of \$3 million by certain Crown corporations and interest of \$86 million credited to the account by the government. Contributions by the government and Crown corporations are equal to the estimated current and prior service payments of individuals in 1964-65. Interest at 4 per cent per annum is credited to the account quarterly and is computed quarterly on the outstanding balance at the end of the previous quarter.

Disbursements total \$66 million and include \$55 million in annuities and \$11 million in withdrawals of contributions.

In 1964-65 receipts totalled \$369 million and disbursements totalled \$64 million.

Canadian forces superannuation account

The balance of \$2,191 million at March 31, 1966 reflects an increase of \$163 million during the fiscal year.

Receipts of \$198 million include \$36 million in contributions by personnel, \$59 million in regular government contributions, \$86 million in interest credited by the government and a credit of \$17 million in respect of additional liabilities

due to increased rates of pay for certain ranks. Regular government contributions are made at the rate of one and two-thirds times the current and prior service contributions by personnel. Interest at 4 per cent per annum is credited to the account quarterly and is computed quarterly on the outstanding balance at the end of the previous quarter.

Disbursements of \$35 million include \$25 million in pensions and retiring allowances and \$10 million in cash termination allowances and return of contributions.

In 1964-65 receipts were \$237 million and disbursements were \$30 million.

Royal Canadian Mounted Police superannuation account

The balance of \$66 million in this account as at March 31, 1966 is \$8 million more than the previous fiscal year-end balance of \$58 million.

Receipts during the year of \$9 million consist of \$2 million in contributions by personnel, \$3 million in interest credited to the account and \$4 million in contributions by the government.

Disbursements of \$1 million consist mainly of annuities and allowances, cash termination allowances and return of contributions.

In 1964-65 receipts were \$12 million and disbursements were \$1 million.

Canada pension plan account

This is a new account to record contributions and payments as authorized by the Canada Pension Plan Act which became effective January 1, 1966.

Government annuities account

The balance in this account of \$1,321 million is \$17 million higher than the balance at March 31, 1965. Receipts of \$79 million include \$29 million from premiums and \$50 million in interest from the government. Disbursements of \$62 million consist mainly of vested annuity and commuted value payments and refunds of premiums. In 1964-65 receipts amounted to \$79 million and disbursements were \$60 million.

Old age security fund

Under the Old Age Security Act, as amended, all persons who satisfy the residence requirements of the act may receive a pension of \$75 per month from the federal government out of the old age security fund provided that no pension is paid in any month before January 1966 in which the person had not attained 70 years of age, the age limit being reduced by one in each subsequent year until 1970.

Receipts of \$1,163 million in 1965-66 exceed pension payments of \$923 million by \$240 million. Temporary loans by the Minister of Finance of \$25 million were repaid leaving a balance in the fund of \$215 million as at March 31, 1966.

In 1964-65 receipts of \$960 million exceeded pension payments of \$885 million by \$75 million which resulted in temporary loans of \$100 million as at March 31, 1964 being reduced to \$25 million as at March 31, 1965.

TABLE 53
(in millions of dollars)

OLD AGE SECURITY FUND	Fiscal year ending March 31				
	1962	1963	1964	1965	1966 (estimated)
Tax receipts—					
Sales tax.....	284.9	302.2	331.8	383.2	516.0
Personal income tax.....	259.0	273.7	302.6	431.9	496.0
Corporation income tax.....	100.1	115.2	115.7	145.2	151.0
Total tax receipts.....	644.0	691.1	750.1	960.3	1,163.0
Pension payments.....	-625.1	-734.4	-808.4	-885.3	-923.0
Excess of receipts over payments.....	18.9	-43.3	-58.3	75.0	240.0
Temporary loans brought forward.....	-17.3		-41.7	-100.0	-25.0
Balance in fund brought forward.....		1.6			
Temporary loans by the Minister of Finance to cover deficit in fund.....		41.7	100.0	25.0	
Balance in fund.....	1.6				215.0

A distribution by provinces of pension payments from the old age security fund for the last two years is shown in the following table:

TABLE 54
(in millions of dollars)

OLD AGE SECURITY PAYMENTS	Fiscal year ending March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Newfoundland.....	17.6	16.8	0.8
Nova Scotia.....	42.0	40.4	1.6
Prince Edward Island.....	8.1	7.1	1.0
New Brunswick.....	31.6	29.8	1.8
Quebec.....	198.0	189.7	8.3
Ontario.....	332.1	321.1	11.0
Manitoba.....	55.8	53.4	2.4
Saskatchewan.....	57.1	55.1	2.0
Alberta.....	63.7	60.0	3.7
British Columbia.....	116.2	111.3	4.9
Northwest and Yukon Territories.....	0.8	0.6	0.2
	923.0	885.3	37.7

Undisbursed balances of appropriations to special accounts

These special accounts record the undisbursed balances of appropriations for which moneys have been appropriated by parliament and from which disbursements may be made for authorized purposes in periods subsequent to that in which the appropriation was made. The balance of \$88 million is \$8 million less than the balance at March 31, 1965.

TABLE 55
(in millions of dollars)

UNDISBURSED BALANCES OF APPROPRIATIONS TO SPECIAL ACCOUNTS	Balance at March 31		Increase or decrease (—)
	1966 (estimated)	1965	
International assistance account.....	68.5	82.3	—13.8
Railway grade crossing fund.....	10.4	6.9	3.5
Centennial of confederation fund.....	8.5	6.0	2.5
National capital fund.....	0.1	0.4	—0.3
Other.....	0.1	0.1	
	87.6	95.7	—8.1

The balance of \$69 million in the international assistance account is \$14 million less than the balance at March 31, 1965. Disbursements of \$41 million from the fund are partly offset by a credit of \$27 million, which amount is the unexpended balance of External Affairs Vote 35 as set out in the sub-vote for international development assistance.

The balance of \$10 million in the railway grade crossing fund is \$3 million higher than the balance at the previous fiscal year-end. The increase of \$3 million is due to an amount of \$14 million credited to the fund and charged to budgetary expenditure and to disbursements of \$11 million from the fund.

The balance of \$9 million in the centennial of confederation fund is \$3 million more than the balance at March 31, 1965. The amount of \$9 million credited to the fund and charged to budgetary expenditure is offset by disbursements of \$6 million from the fund during the year.

Deferred credits

Recorded in these accounts are amounts due the government in respect of which payment is deferred. These are contra accounts to corresponding items under the following asset categories: "loans to, and investments in, Crown corporations", "loans to national governments" and "other loans and investments". The balance of \$136 million is \$23 million more than the balance at March 31, 1965.

TABLE 56
(in millions of dollars)

DEFERRED CREDITS	Balance at March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Deferred interest—			
The St. Lawrence Seaway Authority.....	45.3	38.7	6.6
United Kingdom Financial Agreement Act, 1946.....	83.0	63.8	19.2
Northern Canada Power Commission.....	2.2	2.2	
	130.5	104.7	25.8
Balances receivable under agreements of sale of Crown assets.	1.4	3.0	—1.6
Crown Assets Disposal Corporation—government equity....	3.1	5.5	—2.4
Unamortized premium on loan.....	1.1		1.1
	136.1	113.2	22.9

There is an increase of \$26 million in deferred interest during the year bringing the balance to \$131 million as at March 31, 1966.

Deferred interest in respect of The St. Lawrence Seaway Authority, which is a contra account to a corresponding item in "loans to, and investments in, Crown corporations", increased by \$7 million during the year bringing the balance at March 31, 1966 to \$45 million. See the asset account for explanation of increase.

Deferred interest in respect of the loan under the United Kingdom Financial Agreement Act, 1946, which is a contra account to a corresponding item in "loans to national governments", increased by \$19 million during the year bringing the balance at March 31, 1966 to \$83 million. See the asset account for explanation of increase.

Balances receivable under agreements of sale of Crown assets are contra accounts to corresponding items under the asset category "other loans and investments". During the year payments of \$2 million leave an outstanding balance of \$1 million at March 31, 1966. There were no new agreements of sale during the year.

The government equity in the agency account of Crown assets disposal corporation is a contra account to a corresponding asset account under "other loans and investments". The balance in the account of \$3 million is \$2 million less than the total at the end of the previous fiscal year.

Suspense accounts

These consist of balances where some uncertainty as to disposition exists.

There is a net increase of \$8 million during 1965-66 bringing the outstanding balances to \$14 million as at March 31, 1966.

The replacement of materiel account, which was established by section 11 of the National Defence Act, is credited with amounts realized from the sale of materiel that has not been declared surplus to requirements but has been authorized by the Governor in Council to be sold to other countries. The account is debited with disbursements representing amounts paid for procurement of replacement materiel. During 1965-66 credits to and disbursements from the account are approximately \$1 million each, resulting in a balance of approximately \$1 million.

The surplus Crown assets account, which is a new account established by Vote 48 of the Department of National Defence 1965-66 Estimates, is credited with all revenue received during the current and subsequent fiscal years from the sale of surplus materials, supplies and equipment and from the sale during the current fiscal year of surplus buildings, works and land. The account is debited with expenditures, subject to the approval of Treasury Board, for any of the purposes of the Department of National Defence. The balance of \$8 million consists of credits to the account during the year. There were no disbursements.

TABLE 57
(in millions of dollars)

SUSPENSE ACCOUNTS	Balance at March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Replacement of materiel, sec. 11, National Defence Act....	0.7	0.6	0.1
Surplus Crown assets.....	7.8		7.8
Unclaimed cheques.....	1.3	1.3	
Other.....	4.0	3.6	0.4
	13.8	5.5	8.3

Unmatured debt

The unmatured debt of Canada in the amount of \$19,137 million is \$158 million more than the previous fiscal year-end total. Obligations payable in Canada are \$18,766 million and those payable in New York are \$371 million compared with \$18,602 million and \$376 million respectively at March 31, 1965.

TABLE 58
(in millions of dollars)

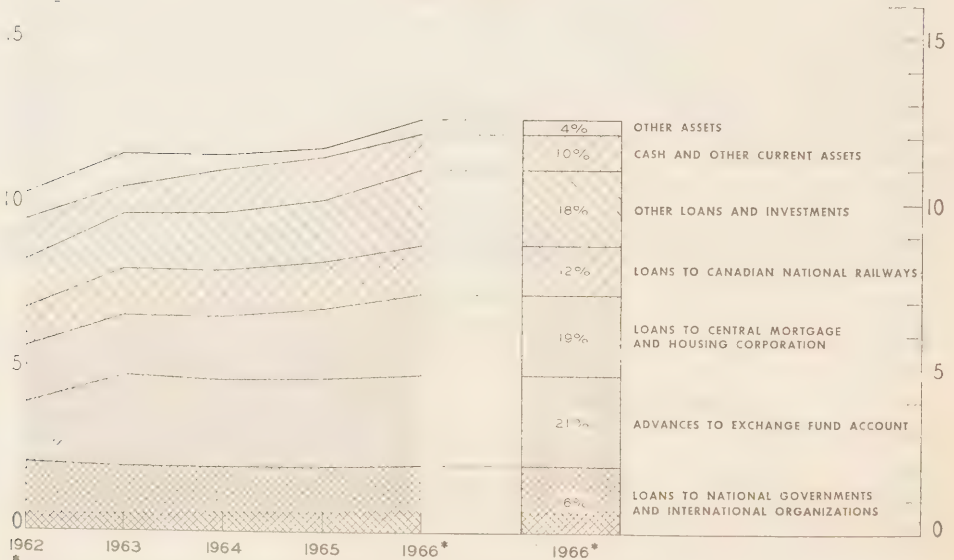
UNMATURED DEBT	Balance at March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Payable in Canada—			
Marketable bonds.....	10,711.5	10,866.4	—154.9
Non-marketable bonds—			
Canada savings bonds.....	5,757.1	5,552.4	204.7
Unemployment Insurance Commission.....	147.0	43.0	104.0
.....	16,615.6	16,461.8	153.8
Treasury bills.....	2,150.0	2,140.0	10.0
Payable in New York ⁽¹⁾	18,765.6	18,601.8	163.8
.....	⁽²⁾ 371.0	⁽²⁾ 376.4	—5.4
	19,136.6	18,978.2	158.4

⁽¹⁾Marketable bonds.

⁽²⁾Converted at the official parity rate of \$1 U.S.=\$1.08108 Canadian.

Details of the various loan issues, maturities and redemptions resulting in the net increase are described more fully in the section "The Public Debt".

TOTAL ASSETS¹
Fiscal Years Ended March 31
Billions of Dollars



ASSET ACCOUNTS

Current assets

These accounts consist of working capital advances and revolving funds, the securities investment account and various cash accounts.

Total current assets at \$1,291 million reflect a decrease of \$11 million during the year. The main changes are decreases of \$40 million in cash in current and special deposits, \$10 million in cash in hands of collectors and in transit and increases of \$22 million in the securities investment account and \$15 million in departmental working capital advances and revolving funds.

TABLE 59
(in millions of dollars)

CURRENT ASSETS	Balance at March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Cash in current and special deposits ⁽¹⁾	642.3	682.3	—40.0
Cash in hands of collectors and in transit.....	158.0	168.0	—10.0
Departmental working capital advances and revolving funds—			
Agricultural commodities stabilization account.....	7.0	23.2	—16.2
Defence production revolving fund.....	26.8	30.2	—3.4
Royal Canadian Mint.....	16.7	18.7	—2.0
Miscellaneous departmental imprest and advance ac- counts.....	19.5	18.6	0.9
Stockpiling of uranium concentrates.....	37.9	24.4	13.5
Veterans land act fund.....	280.0	255.6	24.4
<i>Less</i> reserve for conditional benefits—Veterans Land Act.....	—22.3	—24.3	2.0
Other.....	15.2	19.1	—3.9
	380.8	365.5	15.3
Securities investment account.....	79.0	57.1	21.9
Moneys received after March 31 but applicable to the current year.....	17.0	17.0	
Post Office—cash on hand and in transit.....	14.0	12.1	1.9
	1,291.1	1,302.0	—10.9

⁽¹⁾Receiver General year-end balances in London, New York, Paris and Bonn are at the Canadian dollar equivalent of exchange rates at March 31.

The agricultural commodities stabilization account records the operations of the Agricultural Stabilization Board. It is estimated that the board's operations will result in a net decrease in the account of \$16 million bringing the balance as at March 31, 1966 to \$7 million.

The stockpiling of uranium concentrates account records the acquisition of uranium concentrates in accordance with contracts entered into with the approval of the Governor in Council by the Eldorado Mining and Refining Limited on behalf of Her Majesty in right of Canada with certain mining companies. The balance as at March 31, 1966 at \$38 million is \$14 million higher than the balance at the previous fiscal year-end.

The veterans land act fund was established by an Act to amend the Veterans' Land Act, assented to June 30, 1965, to record advances made under the Veterans' Land Act, not to exceed the amount of \$380 million, for the acquisition,

by the Director, of properties, buildings, materials, livestock, farm equipment and commercial fishing equipment for purposes of the act, for sale to qualified veterans of world war 2 and Korea under sales agreements which carry specified conditional benefits if the terms of such agreements are adhered to by the veterans, and for progress payments to veterans during construction of housing. The outstanding balances in the veterans land act advances and reserve for conditional benefits under the category "other loans and investments" and the veterans land act housing account under the category "departmental working capital advances and revolving funds" were transferred to the new account. Advances during the year of \$64 million and repayments of \$40 million bring outstanding advances at March 31, 1966 to \$280 million. This is partly offset by a reserve for conditional benefits amounting to \$22 million, resulting in a balance in this account of \$258 million at the fiscal year-end.

Advances to the exchange fund account

Advances during the year to finance the purchase of gold and foreign exchange amount to \$947 million and repayments to \$896 million, an increase of \$51 million bringing the outstanding advances to \$2,672 million at March 31, 1966.

During 1964-65 advances were \$699 million and repayments totalled \$679 million resulting in a balance of \$2,621 million at March 31, 1965.

Investments in special United States of America securities—Columbia River Treaty

This account records the special securities issued by the Government of the United States of America and purchased by Canada pursuant to agreements made to carry out the Columbia River Treaty between the Government of the United States and the Government of Canada. During 1965-66 securities in the amount of \$32 million were redeemed leaving a balance of \$187 million as at March 31, 1966.

Sinking fund and other investments held for the retirement of unmatured debt

The holdings of \$5 million in this account at March 31, 1965 were transferred to the securities investment account during the fiscal year leaving a nil balance in the account.

Canada pension plan investment fund

The Canada pension plan investment fund is a new account to record securities purchased under the Canada Pension Plan Act and the sale of these securities. The amount by which the operating balance of the Canada pension plan account in any month exceeds the estimated amount required to meet all payments in the following three month period is available for the purchase of securities of participating provinces. Securities of Canada shall be purchased with the excess remaining after purchasing securities of each province as required. It is estimated that holdings at March 31, 1966 will total \$34 million in provincial securities.

Loans to, and investments in, Crown corporations

Loans and investments in this category total \$5,535 million, an increase of \$621 million over the total at March 31, 1965.

TABLE 60
(in millions of dollars)

LOANS TO, AND INVESTMENTS IN, CROWN CORPORATIONS	Balance at March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Atomic Energy of Canada Limited.....	77.6	65.7	11.9
Bank of Canada.....	5.9	5.9	
Canadian Arsenal Limited.....	5.0	7.5	—2.5
Canadian Broadcasting Corporation.....	3.0	3.0	
Canadian Commercial Corporation.....	7.5	3.5	4.0
Canadian National Railways.....	1,489.3	1,430.6	58.7
Air Canada.....	6.0	3.6	2.4
	1,495.3	1,434.2	61.1
Canadian Overseas Telecommunication Corporation.....	57.8	55.1	2.7
Central Mortgage and Housing Corporation.....	2,437.8	2,137.8	300.0
Eldorado Mining and Refining Limited.....	8.2	8.2	
Export Credits Insurance Corporation.....	10.0	10.0	
Farm Credit Corporation.....	591.3	441.3	150.0
National Capital Commission.....	33.4	26.1	7.3
National Harbours Board.....	203.5	199.8	3.7
Northern Canada Power Commission.....	30.7	27.8	2.9
Polymer Corporation Limited.....	30.0	30.0	
The St. Lawrence Seaway Authority—			
Loans.....	326.5	326.5	
Deferred interest.....	45.3	38.7	6.6
Interest-free loans.....	63.0	44.0	19.0
	434.8	409.2	25.6
Recovery likely to require parliamentary appropriations—			
Canadian Broadcasting Corporation.....	28.3	14.3	14.0
Canadian Corporation for the 1967 World Exhibition....	37.0		37.0
National Capital Commission—Greenbelt.....	36.8	33.8	3.0
	102.1	48.1	54.0
Other Crown Corporations.....	1.3	1.3	
	5,535.2	4,914.5	620.7

Canadian Broadcasting Corporation

There is no change in the advance for working capital during 1965–66, the balance remaining at \$3 million as at March 31, 1966. During the year advances to the corporation for the purpose of capital expenditures amounted to \$14 million, bringing the total of advances to \$28 million at the fiscal year-end. Recovery of these advances is likely to require parliamentary appropriations in subsequent fiscal years.

Canadian Corporation for the 1967 World Exhibition

This is a new account authorized in the amount of \$80 million by Department of Finance Vote L26b to record the acquisition of securities issued by the corporation in accordance with the Canadian Corporation for the 1967 World Exhibition Act. The balance as at March 31, 1966 is estimated at \$37 million. Recovery of these advances is likely to require parliamentary appropriations in subsequent fiscal years.

Canadian National Railways (including Air Canada)

Outstanding advances to the Canadian National Railways at March 31, 1966 of \$1,495 million are \$61 million more than the balance of \$1,434 million at the previous fiscal year-end.

TABLE 61
(in millions of dollars)

ADVANCES TO THE CANADIAN NATIONAL RAILWAYS	Balance at March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Capital Revision Act, 1952—			
Preferred stock.....	1,043.9	1,020.2	23.7
Twenty-year obligation.....	100.0	100.0	
Financing and Guarantee Act, 1960.....	27.0	27.0	
Financing and Guarantee Act, 1961.....	28.4	28.4	
Refunding Act, 1955.....	273.0	238.0	35.0
Canadian Government Railways.....	17.0	17.0	
Air Canada.....	6.0	3.6	2.4
	1,495.3	1,434.2	61.1

During the 1965-66 fiscal year the government made available to the company \$100 million and received repayments of \$39 million. In 1964-65 advances were \$68 million and repayments were \$45 million.

TABLE 62
(in millions of dollars)

ADVANCES TO, AND REPAYMENTS BY, THE CANADIAN NATIONAL RAILWAYS	Fiscal year ending March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Advances—			
For the refunding of debt.....	35.0		35.0
For interim financing of income deficits—			
Canadian National Railways.....	33.4	38.7	—5.3
Air Canada.....	7.7	4.6	3.1
Total advances.....	76.1	43.3	32.8
Purchase of 4 per cent preferred stock (C.N.R. Capital Revision Act, 1952).....	23.7	24.7	—1.0
	99.8	68.0	31.8
Repayments			
Advances for interim financing of income deficits—			
Canadian National Railways.....	—33.4	—38.7	5.3
Air Canada.....	—5.3	—6.0	0.7
	—38.7	—44.7	6.0
Net increase or decrease (—) during the fiscal year.....	61.1	23.3	37.8

In 1965-66 the government advanced to the company \$35 million for the refunding of debt in the hands of the public.

To assist the company to finance further capital expenditure during the year, the government will have purchased \$24 million of the 4 per cent preferred stock of the company. This stock is issued under the authority of the Canadian National Railways Capital Revision Act, 1952, in an amount equal to 3 per cent of the gross revenue of the company.

The government also provided the company with temporary loans of \$33 million in respect of its 1965 deficit which will be repaid when the company's income deficit is charged against 1965-66 budgetary expenditures.

At March 31, 1965 temporary loans of \$3 million were outstanding to Air Canada in respect of its 1965 operations. An additional \$2 million was advanced during the year for its 1965 operations. These have been repaid by the company during 1965-66. However, additional loans of \$6 million have been made during 1965-66 in respect of the company's 1966 operations.

Central Mortgage and Housing Corporation

The balance of \$2,438 million in this account at March 31, 1966 is \$300 million higher than at March 31, 1965, and comprises the Crown's investment of \$25 million in the capital of the corporation and \$2,413 million in loans and advances.

Loans and advances to the corporation are \$490 million in 1965-66 and repayments are \$190 million. In 1964-65 advances were \$314 million and repayments were \$92 million.

Advances comprise \$372 million for direct lending and limited dividend housing, \$7 million for federal-provincial projects for housing, \$35 million for the loan and mortgage purchase fund, \$36 million in respect of municipal sewage treatment and \$40 million for university housing.

Repayments of \$190 million are comprised of \$155 million for direct lending and limited dividend housing, \$3 million for housing, \$15 million for the loan and mortgage purchase fund, \$13 million for municipal sewage treatment and \$4 million in respect of acquisition or construction of real estate.

TABLE 63
(in millions of dollars)

ADVANCES TO, AND REPAYMENTS BY, CENTRAL MORTGAGE AND HOUSING CORPORATION	Fiscal year ending March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Advances—			
Direct lending and limited dividend housing.....	371.9	248.5	123.4
Federal-provincial projects—housing.....	7.5	10.0	—2.5
Loan and mortgage purchase fund.....	34.9		34.9
Municipal sewage treatment.....	36.0	28.5	7.5
University housing.....	40.0	26.5	13.5
	490.3	313.5	176.8
Repayments—			
Direct lending and limited dividend housing.....	—155.5	—74.9	—80.6
Federal-provincial projects—housing.....	—3.3	—4.8	1.5
Loan and mortgage purchase fund.....	—14.9		—14.9
Municipal sewage treatment.....	—12.8	—8.4	—4.4
University housing.....	—0.3	—0.2	—0.1
Acquisition or construction of real estate.....	—3.5	—3.5	
	—190.3	—91.8	—98.5
Net increase during the fiscal year.....	300.0	221.7	78.3

Farm Credit Corporation

The government provides loans to the corporation which makes loans on farm property. The balance of \$591 million in the account at March 31, 1966 consists of the Crown's investment of \$22 million in the capital of the corporation and \$569 million in loans and advances. At March 31, 1965 the balance was \$441 million consisting of capital investment of \$17 million and loans and advances of \$424 million.

During 1965-66 the transactions in the account consist of additional subscriptions by the government of \$5 million to the capital of the corporation, loans and advances of \$165 million and repayments by the corporation of \$20 million.

National Capital Commission

Loans to acquire property in the "Greenbelt" area increased by \$3 million during the year bringing the balance to \$37 million. Recovery of these loans is likely to require parliamentary appropriation in subsequent fiscal years.

Loans to acquire property excluding the "Greenbelt" area increased by \$7 million to \$33 million at March 31, 1966.

The St. Lawrence Seaway Authority

Outstanding loans in this account at March 31, 1966 amount to \$390 million, an increase of \$19 million over the previous fiscal year-end balance of \$371 million. There are no repayments.

Deferred interest increased by \$7 million during the fiscal year bringing the balance at March 31, 1966 to \$45 million.

Other Crown Corporations

Loans to Atomic Energy of Canada Limited are estimated to increase by \$12 million during 1965-66, loans to Canadian Commercial Corporation by \$4 million, loans to the Canadian Overseas Telecommunication Corporation by \$3 million, loans to the National Harbours Board by \$4 million, loans to the Northern Canada Power Commission by \$3 million and loans to Canadian Arsenals Limited to decrease by \$2 million.

Loans to national governments

There is a net increase of \$55 million in this category bringing total balances to \$1,344 million at March 31, 1966.

The Government of the United Kingdom deferred the payment of principal and interest due December 31, 1965 on the \$1,185 million loan made under the \$1,250 million credit authorized by the United Kingdom Financial Agreement Act, 1946, the principal outstanding at the close of the year remaining at \$995 million and deferred interest increasing by \$19 million to \$83 million. The deferment of principal and interest is by an agreement between the Government of Canada and the Government of the United Kingdom that was approved by

a 1957 Act to amend the United Kingdom Financial Agreement Act, 1946. The agreement, which became effective April 29, 1957, permits the United Kingdom in lieu of any right of waiver hitherto existing to defer after December 31, 1956, seven instalments of principal and interest under certain conditions. Interest at 2 per cent is payable on deferred instalments of both principal and interest.

Advances under Part II of the Export Credits Insurance Act to Belgium, France and The Netherlands to assist them in the purchasing of goods in Canada were reduced by a repayment of \$2 million, bringing the balance at March 31, 1966 to \$125 million. The decrease of \$2 million is the regular annual payment by the Government of Belgium. There are no repayments by the Governments of France and The Netherlands as each of these countries had made advance payments in 1962-63 covering instalments up to and including the 1969 instalment.

Loans under the Export Credits Insurance Act, sec. 21A amount to \$121 million, an increase of \$39 million over the March 31, 1965 total.

Special loans by Canada to Colombo plan countries to finance the purchase of wheat and flour from Canada amount to \$7 million, a decrease of \$5 million from the previous fiscal year-end balance.

Loans to India for the purchase in Canada of aircraft and associated parts at \$7 million are \$2 million less than at March 31, 1965.

Special loan assistance—developing countries account is a new account which records loans, not to exceed \$50 million, which are subject to terms and conditions as the Governor in Council may approve, for the purpose of undertaking agreed upon economic, educational and technical projects. The balance in the account as at March 31, 1966 is estimated to be \$6 million.

TABLE 64
(in millions of dollars)

LOANS TO NATIONAL GOVERNMENTS	Balance at March 31		Increase or decrease (—)
	1966 (estimated)	1965	
Loans to United Kingdom—			
The United Kingdom Financial Agreement Act, 1946...	995.1	995.1	
Deferred interest.....	83.0	63.8	19.2
	1,078.1	1,058.9	19.2
Loans under the Export Credits Insurance Act, Part II—			
Belgium.....	25.4	27.7	-2.3
France.....	67.0	67.0	
The Netherlands.....	32.1	32.1	
	124.5	126.8	-2.3
Loans under the Export Credits Insurance Act, sec. 21A.....	120.8	81.8	39.0
Special loans to Colombo plan countries to finance the purchase of wheat from Canada—			
Ceylon.....	0.6	0.8	-0.2
India.....	6.4	10.7	-4.3
	7.0	11.5	-4.5
Miscellaneous loans and advances—			
India—loan for purchase in Canada of aircraft and associated spare parts.....	6.5	8.6	-2.1
France—interim credit—consolidated interest.....	0.7	0.7	
Special loan assistance—developing countries.....	6.1		6.1
Other.....	0.1	0.1	
	13.4	9.4	4.0
	1,343.8	1,288.4	55.4

Other loans and investments

Balances in these accounts total \$1,037 million at March 31, 1966, \$129 million more than at the end of the previous fiscal year.

Canada's subscriptions to the capital of international organizations are \$15 million higher due to additional subscriptions of \$15 million to the international development association. Working capital advances and loans to international organizations at \$8 million are the same amount as at the previous fiscal year-end.

TABLE 65
(in millions of dollars)

OTHER LOANS AND INVESTMENTS	Balance at March 31		Increase or decrease (-)
	1966 (estimated)	1965	
Subscriptions to capital of, and working capital advances and loans to, international organizations—			
Canada's subscriptions to capital of—			
International bank for reconstruction and development.....	80.5	80.5	
International development association.....	55.7	40.7	15.0
International finance corporation.....	3.5	3.5	
International monetary fund.....	577.3	577.3	
Working capital advances and loans to international organizations.....	7.8	7.8	
	724.8	709.8	15.0
Loans to provincial governments—			
Alberta.....	5.9	6.3	-0.4
British Columbia.....	13.2	12.5	0.7
Manitoba.....	10.5	10.7	-0.2
New Brunswick.....	33.8	32.8	1.0
Newfoundland.....	6.5	0.5	6.0
Nova Scotia.....	21.7	7.1	14.6
Saskatchewan.....	29.5	28.5	1.0
	121.1	98.4	22.7
Municipal development and loan board advances.....	124.4	9.4	115.0
Less reserve for forgiveness of indebtedness.....	-7.0	-1.8	-5.2
	117.4	7.6	109.8
Miscellaneous—			
Assisted passage scheme (section 69, Immigration Act, R.S. 1952).....	5.0	3.7	1.3
Balances receivable under agreements of sale of Crown assets.....	2.4	4.2	-1.8
City of Montreal—			
Atwater tunnel.....	1.8	1.9	-0.1
St. Remi tunnel.....		1.0	-1.0
City of Whitehorse.....	1.9	2.0	-0.1
Construction of dock and rail facilities for Steep Rock Iron Mines Limited.....	0.9	1.1	-0.2
Crown Assets Disposal Corporation—			
Government equity in agency account.....	8.1	5.5	2.6
Dominion Coal Company Limited.....	4.5	4.5	
Hamilton Harbour Commissioners.....	1.7	1.7	
Housing projects for Canadian forces.....	20.9	20.4	0.5
Municipal Improvements Assistance Act, 1938.....	0.8	0.9	-0.1
New Westminster Harbour Commission.....	1.3	1.4	-0.1
Northwest Territories.....	7.1	3.9	3.2
Old age security fund—temporary loans.....		25.0	-25.0
Ottawa civil service recreational association re:			
W. Clifford Clark Memorial Recreational Centre...	1.1	1.0	0.1
Town of Oromocto Development Corporation.....	1.1	1.2	-0.1
Yukon Territory.....	6.6	4.9	1.7
Recovery likely to require parliamentary appropriations, Town of Oromocto, New Brunswick.....	3.8	3.8	
Other.....	4.6	4.2	0.4
	73.6	92.3	-18.7
	1,036.9	908.1	128.8

Loans to provincial governments are estimated to increase by \$23 million due mainly to additional advances of \$15 million to Nova Scotia and \$6 million to Newfoundland made pursuant to the Atlantic Provinces Power Development Act.

Under the Municipal Development and Loan Act advances are made to the Municipal Development and Loan Board to provide financial assistance by way of loans to municipalities to augment or accelerate municipal capital works programs. Where the municipal project in respect of which a loan is made is completed on or before September 30, 1966, the board shall forgive payment to the municipality of 25 per cent of the principal amount of the loan. If a project is not completed as at September 30, 1966, the board shall forgive 25 per cent of that portion of the loan that has been advanced to the municipality as of September 30, 1966. Advances of \$124 million at March 31, 1966 are partly offset by a reserve of \$7 million for forgiveness of indebtedness. At March 31, 1965 advances were \$10 million, partly offset by a reserve of \$2 million.

Miscellaneous loans and investments totalling \$74 million reflect a net decrease of \$19 million from the March 31, 1965 total. The decrease is due mainly to the repayment out of the old age security fund of temporary loans of \$25 million which were outstanding at the previous fiscal year-end.

Securities held in trust

Recorded herein are the security holdings of various deposit and trust accounts and annuity, insurance and pension accounts. Bonds and certified cheques held in connection with contractors' securities included in the deposit and trust category are also recorded under this heading. The balance at March 31, 1966 of \$172 million is \$119 million more than the previous fiscal year-end balance due mainly to an increase of \$115 million in holdings under the Municipal Development and Loan Act.

Deferred charges

The balance of \$258 million in this account is \$50 million more than at March 31, 1965, reflecting an increase in the unamortized portions of actuarial deficiencies in the superannuation accounts and a decrease of \$3 million in unamortized loan flotation costs.

Unamortized portions of actuarial deficiencies

These accounts record the unamortized portions of the actuarial deficiencies in the Canadian forces, the public service and the Royal Canadian Mounted Police superannuation accounts which are set up as deferred charges.

Due to salary revisions in 1965-66 additional amounts were credited to the superannuation accounts to cover the estimated actuarial liability and recorded as deferred charges. Consistent with established policy these amounts are amortized over a five year period. The current adjustments for the additional liability were \$17 million in respect of the Canadian forces superannuation account, \$78 million in respect of the public service superannuation account and \$1 million in respect of the Royal Canadian Mounted Police superannuation account.

Credited to these accounts and charged to budgetary expenditure for current and prior actuarial adjustments were \$17 million in respect of the Canadian forces superannuation account resulting in a balance of \$54 million, \$26 million in respect of the public service superannuation account resulting in a balance of \$93 million and \$1 million in respect of the Royal Canadian Mounted Police superannuation account resulting in a balance of \$4 million.

Unamortized loan flotation costs

This account records the residual balances of discounts, commissions, redemption bonuses and conversion premiums on loan flotations that have not been charged to budgetary expenditures. The balance of \$108 million is \$3 million less than the previous fiscal year-end balance.

TABLE 66
(in millions of dollars)

UNAMORTIZED LOAN FLOTATION COSTS	Fiscal year ending March 31	
	1966 (estimated)	1965
Balance of account at beginning of fiscal year.....	110.7	123.7
New flotation costs to be amortized—		
4½% loan July 1, 1965—June 1, 1967.....	0.3	
5% loan July 1, 1965—July 1, 1970.....	1.4	
3½% loan Sept. 1, 1965—Sept. 1, 1966.....	2.2	
5½% loan Sept. 1, 1965—Oct. 1, 1969.....	0.1	
4% loan Dec. 1, 1965—Dec. 15, 1966.....	1.8	
5½% loan Dec. 1, 1965—Apr. 1, 1969.....	0.1	
5½% loan Dec. 1, 1965—Oct. 1, 1975.....	0.2	
4% loan Feb. 1, 1966—Apr. 1, 1967.....	2.3	
5½% loan Feb. 1, 1966—Aug. 1, 1980.....	0.4	
Adjustments ⁽¹⁾	5.9	-0.7
Treasury bills discount.....	16.5	13.2
Canada savings bonds—adjustment of previous issues.....	1.0	0.9
Canada savings bonds—new issue.....	9.0	8.8
3½% loan May 1, 1964—July 1, 1965.....		3.9
5% loan May 1, 1964—July 1, 1969.....		0.3
5½% loan May 1, 1964—May 1, 1990.....		2.4
3½% loan Oct. 1, 1964—Dec. 1, 1965.....		3.6
3½% loan Oct. 1, 1964—Oct. 1, 1967.....		2.1
5% loan Dec. 1, 1964—June 1, 1971.....		0.6
3½% loan Feb. 1, 1965—May 1, 1966.....		1.6
5% loan Feb. 1, 1965—Oct. 1, 1973.....		0.5
	41.2	37.2
Less—		
Amortization applicable to fiscal year—		
Canada savings bonds and general loans.....	-30.8	-36.4
Discount on treasury bills charged to interest on public debt...	-13.2	-13.8
	-44.0	-50.2
Increase or decrease (—) during the year.....	-2.8	-13.0
Balance of account at end of fiscal year.....	107.9	110.7

⁽¹⁾ Adjustments due to additional issues of existing loans.

Cost of new loans issued during 1965-66 and charged to the account amounts to \$41 million, of which \$16 million is in respect of treasury bills discounts which will be charged to interest on public debt in 1966-67. Credits to the account are \$44 million, of which \$31 million is a charge to the budgetary item "annual amortization costs" and \$13 million (representing discount applicable to 1965-66 on treasury bills sold in 1964-65) is a charge to the budgetary item "interest on public debt".

Capital assets

Assets of the government such as land, buildings, works and equipment, etc., that are charged to budgetary expenditure at the time of acquisition or construction, are included in this category and are shown on the statement of assets and liabilities at a nominal value of \$1.

Inactive loans and investments

Loans and investments which are not currently revenue-producing or realizable are recorded herein. Included are the loan of \$49 million to China under the Export Credits Insurance Act, loans of \$24 million and \$7 million made to Roumania and Greece in 1919-20 and 1920-21 respectively and advances of \$15 million in respect of the implementation of guarantees (Ming Sung Industrial Company Limited).

Reserve for losses on realization of assets

The balance of this account at March 31, 1966 was \$546 million, unchanged from the end of the previous fiscal year.

NET DEBT

The net debt of Canada, or the excess of liabilities over net recorded assets, is expected to be \$15,538 million at March 31, 1966, \$34 million higher than at March 31, 1965 reflecting the estimated 1965-66 budgetary deficit of \$34 million.

THE CASH POSITION

The government's cash account represents balances of current and special deposits to the credit of the Receiver General of Canada in the Bank of Canada, chartered banks in Canada and certain banks in London, Paris and Bonn. These balances are expected to total \$642 million at March 31, 1966 compared with \$682 million at March 31, 1965, a decrease of \$40 million.

The cash position of the government is affected not only by budgetary transactions but also by changes in the government's unmatured debt and other non-budgetary transactions. Non-budgetary transactions are those which affect the government's asset and liability accounts and must be taken into account when considering the full scope of the government's financial operations and their effect on the economy of the country.

On the assets side, the non-budgetary transactions consist, for the most part, of loans and advances to, and repayments by, Crown corporations and other government agencies and funds (including the old age security fund), national, provincial and municipal governments, international organizations, veterans and other borrowers. On the liability side they relate mainly to receipts and payments in connection with the many deposit and trust accounts, and annuity, insurance and pension accounts held or administered by the government.

The following statement summarizes both the budgetary and non-budgetary transactions for 1965-66 and indicates their effect on the government's cash position. For purposes of comparison the corresponding figures for 1964-65 are also shown.

TABLE 67
(in millions of dollars)

CHANGES IN CASH POSITION	Fiscal year ending March 31	
	1966 (estimated)	1965
Budgetary transactions—		
Revenue.....	7,673.0	7,180.3
Expenditure.....	-7,707.0	-7,218.3
Deficit.....	-34.0	-38.0
Non-budgetary transactions (excluding unmatured debt transactions)—		
Receipts and credits (net)—		
Repayments of loans, investments and advances...	76.0	-103.7
Annuity, insurance and pension accounts.....	705.3	544.8
Other.....	288.5	88.7
	1,069.8	529.8
Disbursements and charges (net)—		
Loans, investments and advances.....	-946.8	-476.2
Other.....	-276.3	-437.8
	-1,223.1	-914.0
Net amount received from, or required for (-), non-budgetary transactions.....	-153.3	-384.2
Overall cash requirement (-) to be financed by increase in unmatured debt or decrease in cash balances...	-187.3	-422.2
Net increase in unmatured debt outstanding in the hands of the public—		
Unmatured debt—		
Canada savings bonds.....	204.7	460.1
Market issues.....	-154.9	-175.0
Treasury bills.....	10.0	-90.0
Special issues to the Unemployment Insurance Commission.....	104.0	43.0
	163.8	238.1
Securities investment account.....	-21.9	42.8
Sinking fund and other investments.....	5.4	-5.4
	147.3	275.5
Net increase or decrease (-) in Receiver General cash balances.....	-40.0	-146.7

In 1965-66 a deficit of \$34 million and net requirements of \$153 million for non-budgetary transactions (excluding unmatured debt transactions) result in an overall net requirement of \$187 million and as there is an increase of \$147 million in outstanding unmatured debt there is a reduction of \$40 million in Receiver General bank balances. In 1964-65 a budgetary deficit of \$38 million and net disbursements of \$384 million for non-budgetary transactions (excluding unmatured debt transactions) resulted in a net cash requirement of \$422 million and as outstanding unmatured debt increased by \$275 million, Receiver General bank balances decreased by \$147 million.

Non-budgetary receipts and credits (excluding unmatured debt transactions)

As shown in the previous table, non-budgetary receipts and credits total \$1,070 million in 1965-66. Further details are presented in the following table:

TABLE 68
(in millions of dollars)

NON-BUDGETARY RECEIPTS AND CREDITS (NET)	Fiscal year ending March 31	
	1966 (estimated)	1965
Repayments of loans, investments and advances—		
Agricultural commodities stabilization account.....	16.2	40.8
Canadian Arsenals Limited.....	2.5	
Special United States of America securities (Columbia River Treaty) ..	32.3	-219.5
Old age security fund.....	25.0	75.0
	76.0	-103.7
Annuity, insurance and pension accounts—		
Public service superannuation account.....	224.0	305.4
Canadian forces superannuation account.....	163.0	206.6
Old age security fund.....	215.0	
Canada pension plan account.....	80.0	
Other.....	23.3	32.8
	705.3	544.8
Other receipts and credits—		
Outstanding treasury cheques.....	37.8	-4.5
Accounts payable.....	49.0	21.2
Cash in hands of collectors and in transit.....	10.0	-12.4
Interest due and outstanding.....	15.0	10.1
Interest accrued.....	36.4	15.2
Provincial tax collection agreements account.....	1.9	59.2
Security deposits—Municipal Development and Loan Board.....	115.0	9.5
Deferred credits.....	22.9	-6.2
Other.....	0.5	-3.4
	288.5	88.7
	1,069.8	529.8

Non-budgetary disbursements and charges (excluding unmatured debt transactions)

As already indicated, non-budgetary disbursements and charges are \$1,223 million in 1965-66. Further details are presented in the following table:

TABLE 69
(in millions of dollars)

NON-BUDGETARY DISBURSEMENTS AND CHARGES (NET)	Fiscal year ending March 31	
	1966 (estimated)	1965
Loans, investments and advances—		
Veterans Land Act advances.....	26.4	14.3
Exchange fund.....	51.0	20.0
Canada pension plan investment account.....	34.0	
Atomic Energy of Canada Limited.....	11.9	12.0
Canadian Commercial Corporation.....	4.0	-2.0
Canadian Corporation for the 1967 World Exhibition.....	37.0	
Canadian National Railways (including Air Canada).....	61.1	23.3
Canadian Overseas Telecommunication Corporation.....	2.7	-0.4
Central Mortgage and Housing Corporation.....	300.0	221.7
Farm Credit Corporation.....	150.0	102.4
National Capital Commission.....	10.3	6.9
National Harbours Board.....	3.7	1.7
Northern Canada Power Commission.....	2.9	5.4
The St. Lawrence Seaway Authority.....	25.6	-6.5
Canadian Broadcasting Corporation.....	14.0	14.3
National governments.....	55.4	44.3
International Development Association (subscription).....	15.0	7.9
Provincial governments.....	22.7	-4.8
Municipal Development and Loan Board (net).....	109.8	7.6
Other.....	9.3	8.1
	<i>946.8</i>	<i>476.2</i>
Other disbursements and charges—		
Deferred charges.....	49.6	204.5
Securities held in trust.....	118.8	14.2
Redemption of non-interest-bearing notes payable on demand.....	107.9	219.1
	<i>276.3</i>	<i>437.8</i>
	1,223.1	914.0

THE PUBLIC DEBT

Gross and net debt

The gross debt of Canada, or the total of liabilities as recorded on the statement of assets and liabilities, is estimated at \$27,617 million as at March 31, 1966, an increase of \$1,044 million over the total at March 31, 1965. The main changes are increases of \$705 million in annuity, insurance and pension accounts, \$158 million in unmatured debt and \$122 million in deposit and trust accounts. Unmatured debt at \$19,137 million represents 70 per cent of the total and annuity, insurance and pension accounts at \$6,381 million represent 23 per cent. At March 31, 1965 unmatured debt was \$18,978 million or 71 per cent and annuity, insurance and pension accounts totalled \$5,676 million or 21 per cent.

The government's net recorded assets are estimated at \$12,079 million as at March 31, 1966 an increase of \$1,010 million over the total at March 31, 1965. The main changes are increases of \$621 million in loans to, and investments in, Crown corporations, \$119 million in securities held in trust and \$129 million in

other loans and investments. Loans to, and investments in, Crown corporations represent 46 per cent of the total and advances to the exchange fund represent 22 per cent. At March 31, 1965 loans to, and investments in, Crown corporations were \$4,915 million or 44 per cent and advances to the exchange fund were \$2,621 million or 24 per cent.

The net debt of Canada is estimated at \$15,538 million as at March 31, 1966 reflecting an increase of \$34 million, equivalent to the 1965-66 budgetary deficit.

TABLE 70

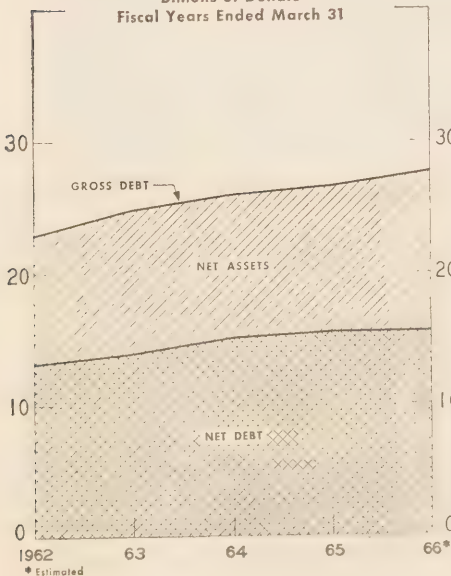
STATEMENT OF PUBLIC DEBT, UNMATURED DEBT, NET RECORDED ASSETS AND NET DEBT OF CANADA
(in millions of dollars)

As at March 31	Gross Public Debt			Less net recorded assets	Net debt	Increase in net debt during fiscal year
	Unmatured debt	Other liabilities	Total			
1962.....	16,945.7	5,962.1	22,907.8	9,679.7	13,228.1	791.0
1963.....	17,961.8	6,837.4	24,799.2	10,879.5	13,919.7	691.6
1964.....	18,740.1	7,183.3	25,923.4	10,853.3	15,070.1	1,150.4
1965.....	18,978.2	7,595.2	26,573.4	11,069.0	15,504.4	434.3
1966 (estimated).....	19,136.6	8,480.5	27,617.1	12,078.7	15,538.4	34.0

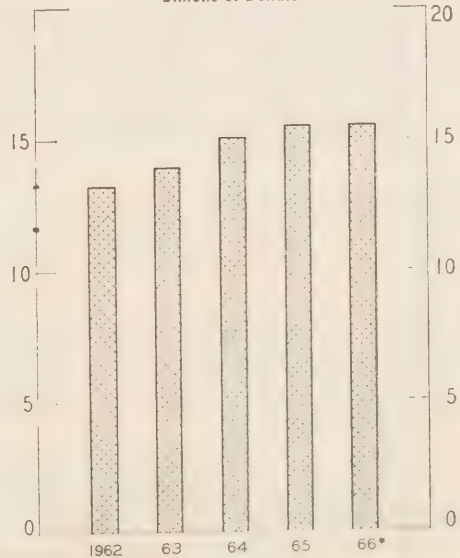
Unmatured debt

Total ununmatured debt of \$19,137 million is \$158 million more than the balance at March 31, 1965.

GROSS AND NET DEBT
Billions of Dollars
Fiscal Years Ended March 31



NET DEBT AS AT MARCH 31
Billions of Dollars



The government's holdings of its own securities as at March 31, 1966 is comprised of \$79 million in the securities investment account (of which \$31 million is in respect of the employees instalment purchase plan). This is an increase of \$17 million over the previous fiscal year-end total when holdings were \$57 million in the securities investment account (of which \$31 million was in respect of the employees instalment purchase plan) and \$5 million in the sinking fund and other investments account.

Of the total unmatured debt, \$18,766 million is payable in Canada and \$371 million in New York. Securities payable in New York have been valued at the official parity rate of \$1 U.S. = \$1.08108 Canadian.

TABLE 71
(in millions of dollars)

UNMATURED DEBT TRANSACTIONS	Fiscal year ending March 31	
	1966 (estimated)	1965
Balance at beginning of year.....	18,978	18,740
New issues—		
For cash—		
Canada savings bonds series 18.....		99
Canada savings bonds series 19.....	89	1,011
Canada savings bonds series 20 (net).....	879	
Marketable bonds.....	1,550	1,975
Non-marketable bonds (Unemployment Insurance Commission).....	144	87
Weekly treasury bills (net).....	10	10
	2,672	3,182
By renewals and conversions—		
Marketable bonds.....		250
Total new issues.....	2,672	3,432
Less—		
Matured marketable bonds.....	-1,705	-1,850
Redeemed non-marketable bonds (Unemployment Insurance Commission).....	-40	-44
Conversions.....		-250
Canada savings bonds redeemed or matured.....	-763	-650
One-year treasury bills (net).....		-100
	-2,508	-2,894
Unmatured marketable bonds (redeemed or cancelled).....	-5	-300
	-2,513	-3,194
Increase in unmatured debt.....	159	238
Balance at end of year.....	19,137	18,978

Summary of security issues, maturities and redemptions

Excluding the refunding of treasury bills which mature weekly, the government has issued securities of \$2,672 million and redemptions and maturities total \$2,513 million.

Net sales of Canada savings bonds series 20 are \$879 million and additional sales of series 19 are \$89 million. Redemptions and maturities of series 8 to 19 total \$763 million. The net increase for all series is \$205 million bringing the total of outstanding Canada savings bonds to \$5,757 million.

Treasury bills in the amount of \$2,150 million consist of \$1,370 million in three-month bills and \$780 million in six-month bills.

TABLE 72
DEBT MATURED OR CONVERTED DURING THE FISCAL YEAR ENDING MARCH 31, 1966
(in millions of dollars)

	Matured	Redeemed	Total
Marketable bonds—			
4½% 1962-65.....AT 15	110.0		110.0
4½% 1963-65.....CT 2	90.0		90.0
3½% 1964-65.....CT 10	400.0		400.0
3½% 1958-65.....T 27	449.9		449.9
3½% 1964-65.....CT 13	325.0		325.0
3½% 1963-66.....AT 19	225.0		225.0
3½% 1964-66.....CT 7	105.0		105.0
5% 1962-87 (N.Y. loan).....		5.4	5.4
	1,704.9	5.4	1,710.3
Non-marketable bonds—			
Canada savings bonds S 8.....	43.1		43.1
Canada savings bonds S 8-19.....		719.8	719.8
Unemployment Insurance Commission, 4½%.....		40.0	40.0
	1,748.0	765.2	2,513.2

TABLE 73
NEW SECURITIES ISSUED DURING FISCAL YEAR ENDING MARCH 31, 1966
(in millions of dollars)

	Price to government	Yield at price to government	Total amount issued	Amount issued for cash
		per cent		
Marketable bonds—				
3½% 1965-66.....CT 16	99.33	4.32	150.0	150.0
3½% 1964/65-67.....CT 14	98.55	4.37	175.0	175.0
3½% 1965-66.....CT 20	99.00	4.79	205.0	205.0
4% 1965-66.....CT 22	98.85	5.15	150.0	150.0
4% 1966-67.....CT 25	98.70	5.16	170.0	170.0
4½% 1965-67.....CT 18	99.50	4.52	50.0	50.0
5½% 1965-69.....CT 23	100.25	5.41	100.0	100.0
5% 1965-70.....CT 19	99.75	5.06	125.0	125.0
5% 1966-70.....CT 19	98.50	5.38	50.0	50.0
5½% 1965-75.....CT 24	100.00	5.50	50.0	50.0
5½% 1966-80.....CT 26	100.00	5.50	80.0	80.0
5½% 1965-69.....CT 21	100.75	5.29	145.0	145.0
5½% 1964/65-90.....CT 12	98.50	5.36	100.0	100.0
			1,550.0	1,550.0
Non-marketable bonds—				
Unemployment Insurance Commission—				
4½%.....	100.00	4.50	80.5	80.5
4½%.....	100.00	4.875	63.5	63.5
Canada savings bonds—				
Nov. 1, 1964—Nov. 1, 1974				
4½-5½%.....S 19	100.00	5.00	89.1	89.1
Nov. 1, 1965—Nov. 1, 1975				
4½-5½% (net).....S 20	100.00	5.03	878.6	878.6
Weekly treasury bills (net).....			10.0	10.0
			2,671.7	2,671.7

Interest rates

The average interest rate on the government's unmatured debt rose to 4.43 per cent during the fiscal year from 4.32 per cent at March 31, 1965.

The yield on three-month treasury bills which was 3.62 per cent at tender on March 25, 1965 was 4.92 per cent at tender on March 17, 1966.

The yield on six-month treasury bills which was 3.73 per cent at tender on March 25, 1965 was 5.15 per cent at tender on March 17, 1966.

The following table shows the high and low yields together with the yield on the latest issues for the fiscal years 1961-62 to 1965-66 inclusive:

TABLE 74
TREASURY BILL YIELDS AT TENDER

Fiscal year ending March 31	High per cent	Low per cent	Last issue per cent
Three-month bills—			
1962.....	3.34	2.26	3.12
1963.....	5.51	3.04	3.62
1964.....	3.90	3.19	3.88
1965.....	3.87	3.53	3.62
1966.....	4.92	3.61	(1)4.92
Six-month bills—			
1962.....	3.49	2.53	3.29
1963.....	5.74	3.19	3.74
1964.....	4.06	3.30	4.04
1965.....	4.06	3.69	3.73
1966.....	5.15	3.70	(1)5.15

(1) At tender on March 17, 1966.

AVERAGE INTEREST RATE ON UNMATURED DEBT

As At March 31
Per Cent



Indirect debt or contingent liabilities

In addition to the direct debt as set out in the statement of assets and liabilities, the government has assumed certain indirect or contingent liabilities. These consist of securities of the Canadian National Railways, guaranteed as to principal and interest, the guarantees of insured loans made by chartered

banks and other approved lending institutions under the National Housing Act, deposits maintained by the chartered banks in the Bank of Canada, advances under the Export Credits Insurance Act and bank loans under a number of Federal Statutes.

TABLE 75
SUMMARY OF INDIRECT DEBT OR CONTINGENT LIABILITIES (estimated)

	Amount of guarantee	Amount outstanding
	\$	\$
Railway securities guaranteed as to principal and interest ⁽¹⁾ —		
1. Canadian National 2½% due January 2, 1967.....	50,000,000	50,000,000
2. Canadian National 4½% due April 1, 1967.....	72,300,000	72,300,000
3. Canadian National 5% due May 15, 1968.....	55,800,000	55,800,000
4. Canadian National 2½% due September 15, 1969.....	70,000,000	70,000,000
5. Canadian National 2½% due January 16, 1971.....	40,000,000	40,000,000
6. Canadian National 5½% due December 15, 1971.....	190,561,500	190,561,500
7. Canadian National 3½% due February 1, 1974.....	200,000,000	200,000,000
8. Canadian National 2½% due June 15, 1975, U.S. \$6,000,000 ⁽²⁾	6,486,486	6,486,486
9. Canadian National 5% due May 15, 1977.....	84,150,000	84,150,000
10. Canadian National 4% due February 1, 1981.....	300,000,000	300,000,000
11. Canadian National 5½% due January 1, 1985.....	99,500,000	99,500,000
12. Canadian National 5% due October 1, 1987.....	162,750,000	162,750,000
	<u>1,331,547,986</u>	<u>1,331,547,986</u>
Other outstanding guarantees and contingent liabilities—		
13. Deposits maintained by the chartered banks in the Bank of Canada ⁽³⁾	Unstated	1,020,807,448
14. Loans made by lenders under Part IV of the National Housing Act, 1954, for home extensions and improvements ⁽⁴⁾	25,000,000	17,341,000
15. Insured loans made by approved lenders under the National Housing Act, 1954 ⁽⁵⁾	8,500,000,000	5,321,000,000
16. Liability for insurance and guarantees and other commitments with respect to long-term financing under sections 21 and 21A of the Export Credits Insurance Act ⁽⁴⁾	1,000,000,000	515,320,235
17. Loans made by chartered banks under the Farm Improvement Loans Act ⁽⁴⁾	127,913,000	68,600,000
18. Loans made by chartered banks under the Veterans' Business and Professional Loans Act ⁽⁴⁾	4,000	4,000
19. Loans made by chartered banks and credit unions under the Fisheries Improvement Loans Act ⁽⁴⁾	2,700,000	325,000
20. Loans made by chartered banks under the Small Businesses Loans Act ⁽⁴⁾	37,316,000	12,572,000
21. Loans made by chartered banks and credit unions under the Canada Student Loans Act ⁽⁶⁾	81,995,000	64,392,000
22. Notes issued by the Canadian Corporation for the 1967 World Exhibition ⁽⁷⁾	Unstated	37,000,000
23. Loans made by chartered banks to the Canadian Wheat Board ⁽⁸⁾	398,000,000	34,128,000
		<u>7,091,489,683</u>
24. Loans maintained by approved lending institutions under National Housing Acts prior to 1954 Act.....	Unstated	Indeterminate
25. Guarantees to owners of returns from moderate rental housing projects ⁽⁹⁾	Unstated	Indeterminate

⁽¹⁾ As at February 28, 1966.

⁽²⁾ Converted at \$1.08108 Can. official parity rate.

⁽³⁾ As at March 2, 1966.

⁽⁴⁾ As at December 31, 1965.

⁽⁵⁾ As reported (in accordance with sec. 45, National Housing Regulations) by approved lenders at December 31, 1965.

⁽⁶⁾ As at December 31, 1965. Includes contingent liability in respect of alternative payments to non-participating province.

⁽⁷⁾ As at March 7, 1966.

⁽⁸⁾ As at January 31, 1966.

⁽⁹⁾ Funds totalling \$3,957,495 are held by Central Mortgage and Housing Corporation for the purpose of settling claims. In 1965 rental guarantee contracts totalled \$13,876,000.

SUPPLEMENTARY DETAILED TABLES

REVENUE

EXPENDITURE

ANNUAL CHANGES IN LOANS AND INVESTMENTS

UNMATURED DEBT

STATEMENT OF REVENUE FOR THE LAST FIVE FISCAL YEARS

(in millions of dollars)

	1961-62	1962-63	1963-64	1964-65	1965-66 (estimated)
TAX REVENUE—					
Income tax—					
Personal ⁽¹⁾	1,792.7	1,744.6	1,865.1	2,103.3	2,150.0
Corporation ⁽¹⁾	1,202.0	1,182.8	1,259.0	1,523.8	1,610.0
On dividends, interest, etc., going abroad.....	112.3	129.2	124.5	143.7	170.0
	3,107.0	3,056.6	3,248.6	3,770.8	3,930.0
Excise taxes—					
Sales tax ⁽¹⁾⁽²⁾	759.7	806.0	946.1	1,204.6	1,385.0
Other taxes—					
Automobiles.....	25.3	(3)	(3)	(3)	
Cigarettes, tobacco and cigars.....	207.6	217.8	226.9	218.3	237.0
Electric power export.....	1.0	0.5	0.1	(3)	
Jewellery, watches, ornaments, etc.....	5.6	5.8	6.4	6.9	7.9
Matches and lighters.....	1.1	1.2	1.3	1.2	1.3
Television sets, radios and phonographs...	18.4	19.9	22.0	23.5	27.7
Toilet preparations.....	9.4	10.2	11.1	12.8	14.2
Wines.....	3.3	3.7	3.8	4.1	4.3
Sundry commodities.....	1.1	1.2	1.3	1.4	1.4
Interest and penalties.....	0.7	0.5	0.8	1.2	1.6
Less refunds.....	-11.0	-0.4	-0.3	-0.3	-0.4
	262.5	260.4	273.4	269.1	295.0
Customs import duties.....	534.5	645.0	581.4	622.1	676.0
Excise duties—					
Spirits.....	114.1	122.1	129.4	134.7	155.0
Beer.....	92.7	98.2	102.9	105.4	106.0
Cigarettes, tobacco and cigars.....	160.5	166.5	165.7	177.2	184.0
Licences.....	(3)	(3)	(3)	(3)	(3)
Less refunds.....	-4.5	-4.9	-4.7	-5.9	-6.0
	362.8	381.9	393.3	411.4	439.0
Estate tax ⁽⁴⁾	84.6	87.1	90.6	88.6	106.8
Miscellaneous tax revenue.....	0.1	(3)	0.1	0.2	0.2
Total tax revenue.....	5,111.2	5,237.0	5,533.5	6,366.8	6,832.0
NON-TAX REVENUE—					
Return on investments.....	307.5	311.9	366.4	422.7	436.0
Post office—net postal revenue.....	183.7	192.8	200.7	230.4	235.0
Other.....	127.2	137.0	152.6	160.4	170.0
Total non-tax revenue.....	618.4	641.7	719.7	813.5	841.0
Total revenue.....	5,729.6	5,878.7	6,253.2	7,180.3	7,673.0

⁽¹⁾Excluding tax credit to the old age security fund—

	1961-62	1962-63	1963-64	1964-65	1965-66 (estimated)
Personal income tax.....	259.0	273.7	302.6	431.9	496.0
Corporation income tax.....	100.1	115.2	115.7	145.2	151.0
Sales tax.....	284.9	302.2	331.8	383.2	516.0

⁽²⁾Net after deduction of refunds and drawbacks as well as transfers to the old age security fund.⁽³⁾Less than \$50,000.⁽⁴⁾Includes duties levied under the Dominion Succession Duty Act.

STATEMENT OF EXPENDITURE BY DEPARTMENTS AND MAJOR CATEGORIES
FOR THE LAST FIVE FISCAL YEARS

(in millions of dollars)

	1961-62	1962-63	1963-64	1964-65	1965-66 (estimated)
AGRICULTURE—					
Administration and general.....	4.1	3.3	3.8	4.1	5.1
Agricultural commodities stabilization account—net operating loss.....	22.0	71.8	122.2	57.1	40.7
Agricultural products board account— net operating loss.....	4.9	0.9	1.0	0.3	1.7
Board of Grain Commissioners.....	6.5	6.2	6.7	6.6	7.4
Farm Credit Corporation—net operat- ing loss.....			1.1	0.5	1.2
Prairie farm emergency fund—deficit..	47.7	7.3	1.1	0.4	
Production and marketing.....	41.5	39.0	38.5	41.5	76.7
Payments to western grain producers	40.1	0.1			
Rehabilitation and reclamation proj- ects.....	25.1	27.8	23.7	26.4	32.3
Research.....	26.8	27.0	27.6	28.8	32.5
	218.7	183.4	225.7	165.7	197.6
ATLANTIC DEVELOPMENT BOARD.....		(1)	0.2	4.3	22.9
ATOMIC ENERGY.....	34.7	63.2	45.9	46.6	53.6
AUDITOR GENERAL'S OFFICE.....	1.1	1.2	1.3	1.6	1.7
BOARD OF BROADCAST GOVERNORS.....	0.3	0.4	0.3	0.4	0.4
CANADIAN BROADCASTING CORPORATION—					
Grants in respect of the net operating requirements of the national broad- casting service.....	76.5	79.0	85.7	85.9	97.0
International service.....	1.7	1.8	1.9	2.1	2.4
	78.2	80.8	87.6	88.0	99.4
CENTRAL MORTGAGE AND HOUSING COR- PORATION.....	5.8	8.7	13.5	15.0	19.4
OFFICE OF THE CHIEF ELECTORAL OFFICER..	0.4	11.8	11.9	0.6	13.1
CITIZENSHIP AND IMMIGRATION—					
Administration and general.....	3.6	3.9	4.6	5.6	5.3
Immigration.....	10.7	10.8	11.4	12.2	15.0
Municipal winter works incentive pro- gram.....		0.9	26.7	42.8	40.4
National employment service.....	17.9	18.8	19.0	21.2	22.8
Technical and vocational training as- sistance payments to provinces.....	35.7	208.0	136.4	97.9	120.2
	67.9	242.4	198.1	179.7	203.7
CIVIL SERVICE COMMISSION.....	4.7	4.8	5.2	6.2	8.2
DEFENCE PRODUCTION—					
Defence expenditure.....	16.1	17.8	18.1	19.7	14.6
Non-defence expenditure.....	2.1	1.9	1.9	3.3	9.0
	18.2	19.7	20.0	23.0	23.6
ECONOMIC COUNCIL OF CANADA.....			0.2	0.8	1.1
EMERGENCY MEASURES ORGANIZATION...	5.1	6.4	6.9	7.7	8.4
EXTERNAL AFFAIRS—					
Administration and general.....	28.9	23.7	28.8	32.8	48.4
External aid.....	53.9	46.5	51.7	81.4	85.7
Representation abroad.....	12.8	15.0	16.5	17.0	19.6
	95.6	85.2	97.0	131.2	153.7
FINANCE—					
Administration and general.....	19.4	32.3	23.1	22.9	30.9
Assistance re storage costs of grain....	48.8	35.2	39.6	34.0	37.5

STATEMENT OF EXPENDITURE BY DEPARTMENTS AND MAJOR CATEGORIES
FOR THE LAST FIVE FISCAL YEARS—*Continued*

(in millions of dollars)

	1961-62	1962-63	1963-64	1964-65	1965-66 (estimated)
FINANCE—<i>Concluded</i>					
Office of the Comptroller of the Treasury.....	22.0	23.3	23.8	24.9	25.0
Grants to municipalities in lieu of taxes on federal property.....	24.7	29.2	31.5	35.7	36.9
Grants to universities.....	19.4	26.3	26.8	27.3	27.8
Municipal Development and Loan Board.....			0.1	2.6	30.0
Public service superannuation account—Government's contribution.....	46.9	51.1	54.0	55.6	58.0
Amortization of deferred charges....				10.0	25.6
Fiscal, subsidy and other payments to provinces.....	541.2	275.3	254.3	358.4	473.3
Public debt charges—					
Interest on public debt.....	802.9	881.6	954.5	1,012.1	1,052.0
Cost of issuing new loans and annual amortization of bond discounts and commissions.....	35.3	34.6	38.2	38.2	32.0
Servicing of public debt.....	0.8	1.6	1.0	1.0	1.0
	1,561.4	1,390.5	1,446.9	1,622.7	1,830.0
FISHERIES.....	23.1	23.3	23.7	25.6	35.4
FORESTRY—					
Administration and general.....	14.8	16.2	18.5	20.7	22.2
Freight assistance and grain storage costs.....	17.5	14.4	18.7	19.1	21.0
Rehabilitation and reclamation projects.....	1.0	1.2	4.6	10.0	16.0
	33.3	31.8	41.8	49.8	59.2
GOVERNOR GENERAL AND LIEUTENANT-GOVERNORS.....	0.5	0.5	0.5	0.6	0.7
INDUSTRY—					
Defence.....	4.4	8.0	19.0	20.5	25.0
Non-defence.....	0.1	0.4	0.7	3.3	6.0
	4.5	8.4	19.7	23.8	31.0
INSURANCE.....	1.4	1.4	1.4	1.4	1.5
JUSTICE.....	8.2	8.4	9.9	10.9	11.8
LABOUR.....	30.7	32.8	7.3	24.3	24.4
Unemployment Insurance Commission—					
Administration and general.....	28.0	29.3	29.8	33.1	33.1
Government's contribution.....	55.6	57.3	59.3	62.1	65.5
	114.3	119.4	96.4	119.5	123.0
LEGISLATION—					
House of Commons.....	6.2	5.9	10.1	11.1	11.7
Senate.....	1.9	1.8	2.5	2.7	2.7
Library of Parliament.....	0.3	0.4	0.3	0.4	0.5
	8.4	8.1	12.9	14.2	14.9
MINES AND TECHNICAL SURVEYS—					
Administration and general.....	49.1	47.2	40.7	42.5	56.3
Dominion Coal Board.....	19.9	20.4	20.6	23.2	23.4
Emergency gold mining assistance.....	12.4	15.2	15.0	15.7	14.3
National Energy Board.....	0.4	0.5	0.6	0.7	0.9
Water resources branch.....	2.4	5.5	10.3	12.1	13.7
	84.2	88.8	87.2	94.2	108.6
NATIONAL CAPITAL COMMISSION.....	8.7	13.0	12.2	10.4	18.6

STATEMENT OF EXPENDITURE BY DEPARTMENTS AND MAJOR CATEGORIES
FOR THE LAST FIVE FISCAL YEARS—*Continued*

(in millions of dollars)

—	1961-62	1962-63	1963-64	1964-65	1965-66 (estimated)
NATIONAL DEFENCE—					
Defence forces, army, naval and air services.....	1,504.3	1,435.4	1,460.6	1,369.2	1,353.4
Defence research and development....	40.4	41.1	46.1	54.5	73.0
Canadian forces superannuation account—					
Government's contribution.....	56.0	58.1	59.7	58.8	58.8
Special government contribution....			76.5		
Amortization of deferred charges....				13.4	16.8
Mutual aid to NATO countries.....	11.1	25.0	28.9	27.5	18.6
Pensions—payments under Defence Services Pension Act.....	7.3	7.5	7.9	8.1	9.0
Other.....	7.4	7.2	6.3	6.3	7.1
	1,626.5	1,574.3	1,686.0	1,537.8	1,536.7
NATIONAL FILM BOARD.....	5.1	5.6	5.8	6.4	6.9
NATIONAL GALLERY OF CANADA.....	1.0	1.0	1.1	1.3	1.9
NATIONAL HEALTH AND WELFARE—					
Administration and general.....	1.8	1.9	2.0	2.3	2.3
Health services—					
General health grants and hospital construction grants.....	49.0	50.3	53.0	56.7	52.0
Government's contributions under the Hospital Insurance and Diagnostic Services Act.....	283.9	336.7	392.2	433.9	314.0
Other.....	6.3	6.6	6.9	6.8	7.0
Welfare services—					
Family allowances.....	520.8	531.6	538.3	545.8	552.0
Youth allowances.....				26.9	46.5
Fitness and amateur sport payments.	0.2	1.1	1.6	2.0	2.0
Old age assistance, blind persons and disabled persons allowances.....	51.4	62.7	64.4	74.0	45.4
Unemployment assistance.....	92.0	96.5	107.4	107.5	104.6
Other.....	5.4	5.9	6.9	8.4	9.8
Medical services.....	28.1	28.9	30.6	32.5	37.5
Food and drug services.....	2.5	2.8	3.4	4.3	5.3
	1,041.4	1,125.0	1,206.7	1,301.1	1,178.4
NATIONAL RESEARCH COUNCIL, INCLUDING THE MEDICAL RESEARCH COUNCIL.....	38.8	40.6	47.3	56.6	74.1
NATIONAL REVENUE.....	75.3	78.6	83.0	86.9	95.2
NORTHERN AFFAIRS AND NATIONAL RESOURCES—					
Administration and general.....	62.2	69.2	58.5	62.6	71.7
Indian affairs.....	50.4	51.0	55.6	64.8	81.5
	112.6	120.2	114.1	127.4	153.2
POST OFFICE.....	185.0	189.4	206.9	210.5	239.2
PRIVY COUNCIL, INCLUDING PRIME MINISTER'S OFFICE.....	6.8	5.2	6.1	8.2	9.1
PUBLIC ARCHIVES AND NATIONAL LIBRARY	1.0	1.1	1.1	1.5	1.9
PUBLIC PRINTING AND STATIONERY—					
Publications.....	1.9	2.0	2.2	2.7	3.0
PUBLIC WORKS—					
Administration and general.....	15.5	15.7	15.6	30.2	34.6
Accommodation services.....	81.4	71.6	74.3	87.4	108.7
Harbours and rivers engineering services	35.8	29.4	23.6	30.3	36.1
Trans-Canada highway contributions..	41.6	33.0	41.3	76.1	80.0
	174.3	149.7	154.8	224.0	259.4

STATEMENT OF EXPENDITURE BY DEPARTMENTS AND MAJOR CATEGORIES
FOR THE LAST FIVE FISCAL YEARS—*Concluded*

(in millions of dollars)

	1961-62	1962-63	1963-64	1964-65	1965-66 (estimated)
OFFICE OF THE REPRESENTATION COM- MISSIONER.....			(1)	0.2	0.8
ROYAL CANADIAN MOUNTED POLICE.....	60.5	65.4	66.9	76.2	82.0
SECRETARY OF STATE.....	3.2	4.8	7.6	21.9	25.8
SOLICITOR GENERAL— Correctional services.....	23.9	25.5	27.9	39.0	57.3
TRADE AND COMMERCE— Administration and general.....	14.3	14.0	15.0	16.8	19.6
Canadian government travel bureau....	3.0	3.4	3.9	4.9	6.4
Canadian Corporation for the 1967 World Exhibition.....		0.3	1.2	19.5	5.0
Dominion Bureau of Statistics.....	24.6	11.9	12.3	13.5	15.8
	41.9	29.6	32.4	54.7	46.8
TRANSPORT— Administration and general.....	5.8	5.9	4.7	7.0	6.3
Air services.....	150.0	136.9	121.1	131.4	141.2
Canadian Maritime Commission.....	10.2	31.0	49.8	40.6	49.8
Marine services.....	48.6	57.8	64.1	64.5	87.2
Non-active assets— National Harbours Board.....	4.9	5.2	0.3	7.6	5.1
Railways and steamships.....	4.6	14.6	30.2	35.4	40.4
Maritime Freight Rates Act.....	12.2	12.9	13.4	14.7	15.3
Deficits— Canadian National Railways.....	67.3	48.9	43.0	38.7	33.4
Newfoundland ferry and terminals	7.3	8.2	8.6	11.1	12.7
Prince Edward Island car ferry and terminals.....	3.0	3.3	3.3	4.0	4.1
Yarmouth—Bar Harbour ferry service.....	0.1	0.2	0.2	0.1	
Board of Transport Commissioners....	1.3	1.3	1.4	1.5	1.6
Freight Rates Reduction Act.....	19.0	20.6			
Payments to railways for the main- tenance of the rates of freight traffic	50.0	50.0	68.1	68.7	95.2
Maintenance of trackage.....	7.0	7.0	7.0	7.0	7.0
Contributions to the railway grade crossing fund.....	10.0	5.8	5.1	5.1	14.0
Air Canada—deficit.....	6.5	3.5			
Canals and works entrusted to The St. Lawrence Seaway Authority.....	2.6	2.9	3.0	29.0	10.5
	410.4	416.0	423.3	466.4	523.8
VETERANS AFFAIRS— Administration and general.....	10.4	10.3	10.0	10.5	10.7
Pensions.....	177.9	175.9	173.2	180.3	185.5
Provision for reserve for conditional benefits.....	3.3	3.2	3.2	3.1	3.0
Soldier settlement and veterans land acts.....	4.6	4.6	4.5	4.5	4.6
Treatment services.....	47.0	45.3	45.5	46.4	50.1
Welfare services, allowances and other benefits.....	89.1	95.4	96.4	106.8	116.1
	332.3	334.7	332.8	351.6	370.0
Total Expenditure.....	6,520.6	6,570.3	6,872.4	7,218.3	7,707.0

Where transfers have taken place during the current fiscal year, pursuant to the Public Services Rearrangement and Transfer of Duties Act, necessitating the transfer of part votes, such changes as required have been made in 1964-65, but not in prior years.

(1) Less than \$50,000.

ANNUAL CHANGES IN LOANS AND INVESTMENTS FOR THE LAST FIVE
FISCAL YEARS
(in millions of dollars)

	1961-62	1962-63	1963-64	1964-65	1965-66 (estimated)
Loans to, and investments in, Crown corporations—					
Air Canada.....	0.2	-0.4	0.4	-1.4	2.4
Atomic Energy of Canada Limited.....	4.9	-12.5	0.4	12.0	11.9
Canadian Arsenals Limited.....					-2.5
Canadian Broadcasting Corporation.....				14.3	14.0
Canadian Commercial Corporation.....	3.0	-0.5	-4.0	-2.0	4.0
Canadian Corporation for the 1967 World Exhibition.....					37.0
Canadian National Railways.....	72.2	274.7	-28.8	24.7	58.7
Canadian National (West Indies) Steamships Limited.....	-0.7	-0.6			
Canadian Overseas Telecommunication Corporation.....	6.2	11.4	6.2	-0.4	2.7
Central Mortgage and Housing Corporation....	190.3	101.8	113.3	221.7	300.0
Farm Credit Corporation.....	54.2	59.0	69.9	102.4	150.0
National Capital Commission.....	6.2	9.4	12.1	6.9	10.3
National Harbours Board.....	6.0	13.8	5.5	1.7	3.7
Northern Canada Power Commission.....	-0.3	-7.2	3.4	5.4	2.9
Northern Ontario Pipe Line Crown Corporation	-4.7	-8.4	-110.6		
The St. Lawrence Seaway Authority.....	(1)28.3	(1)22.7	(1)24.9	(1)-6.5	(1)25.6
Other.....				-0.1	
	365.8	463.2	92.7	378.7	620.7
Loans to national governments—					
United Kingdom—					
The United Kingdom Financial Agreement Act, 1946.....	-17.1	-17.5	-17.8	(2)19.6	(2)19.2
Export Credit Insurance Act.....	-15.3	-105.9	-2.3	-2.3	-2.3
Export Credits Insurance Corporation, sec. 21A	5.3	19.6	23.4	33.4	39.0
Special loans to Colombo plan countries to finance the purchase of wheat and flour from Canada.....	-5.0	-5.0	-5.0	-5.0	-4.5
Loan to India for the purchase in Canada of aircraft and associated spare parts and equipment.....			10.0	-1.4	-2.1
Special loan assistance—developing countries...					6.1
Other.....	-1.0	-0.6			
	-33.1	-109.4	8.3	44.3	55.4
Other loans and investments—					
Subscriptions to capital of, working capital advances and loans to, international organizations—					
Canada's subscription to capital of—					
International monetary fund.....	21.0	12.6			
International bank for reconstruction and development.....		6.8			
International development association.....	7.9	8.5	7.9	7.9	15.0
Working capital advances and loans to international organizations.....	-0.1	6.2	0.2	-0.2	
Loans to provincial governments.....	-0.5	5.8	-0.5	-4.8	22.7
Municipal development and loan board.....				7.6	109.8
Provincial tax collection agreements—advances		13.1	-2.7	-10.4	
Balances receivable under agreements of sale of					
Crown assets.....	-1.5	-2.3	-2.3	-1.8	-1.8
Housing projects for Canadian forces.....	1.9	6.1	5.4	2.5	0.5
Old age security fund.....	-17.3	41.7	58.3	-75.0	-25.0
Unemployment Insurance Commission.....	-67.0				
Other.....	2.5	-0.3	-0.2	1.5	7.6
	-53.1	98.2	66.1	-72.7	123.8
Net total of changes in loans and investments...	279.6	452.0	167.1	350.3	804.9

(1)Includes deferred interest.

(2)Deferred interest.

**UNMATURED DEBT INCLUDING TREASURY BILLS AS AT MARCH 31, 1966
AND THE ANNUAL INTEREST THEREON (estimated)**

		Date of maturity	Rate per cent	Amount of loan	Annual interest
				\$	\$
Payable in Canada—					
Loan of 1965.....	CT 16	1966 May 1	3½	325,000,000	11,375,000
Ninth victory loan.....	P 7	Sept. 1	3	245,202,200	7,356,066
Loan of 1965.....	CT 20	Sept. 1	3¾	205,000,000	7,687,500
Canada savings bonds 1954.....	S 9	Nov. 1	3¾	(1)23,320,700	757,923
Loan of 1961.....	AT 6	Dec. 15	4½	175,000,000	7,875,000
Loan of 1963 and 1964.....	CT 5	Dec. 15	4½	125,000,000	5,625,000
Loan of 1965.....	CT 22	Dec. 15	4	150,000,000	6,000,000
Loan of 1966.....	CT 25	1967 Apr. 1	4	170,000,000	6,800,000
Loan of 1961 and 1963.....	AT 9	June 1	4½	275,000,000	11,687,500
Loan of 1965.....	CT 18	June 1	4½	50,000,000	2,125,000
Loan of 1962.....	AT 12	Oct. 1	3¾	100,000,000	3,750,000
Loan of 1964 and 1965.....	CT 14	Oct. 1	3¾	250,000,000	9,375,000
Canada savings bonds 1955.....	S 10	Nov. 1	3¾	(1)22,538,600	732,504
Loan of 1962.....	AT 11	1968 Jan. 15	4	250,000,000	10,625,000
Loan of 1964.....	CT 8	Jan. 15	4½	130,000,000	5,525,000
Refunding loan 1950.....	P 9	June 15	2¾	308,581,000	8,485,978
Loan of 1963 and 1964.....	CT 3	Oct. 1	5	441,000,000	22,050,000
Canada savings bonds 1959.....	S 14	Nov. 1	5	(1)851,797,350	42,589,867
Loan of 1960.....	T 39	1969 Apr. 1	5½	80,000,000	4,400,000
Loan of 1965.....	CT 23	Apr. 1	5½	100,000,000	5,500,000
Loan of 1962.....	AT 16	Apr. 1	5½	100,000,000	5,500,000
Canada savings bonds 1956.....	S 11	May 1	4	(1)41,105,600	1,644,224
Loan of 1964.....	CT 11	July 1	5	325,000,000	16,250,000
Loan of 1962.....	AT 13	Oct. 1	5½	80,000,000	4,400,000
Loan of 1965.....	CT 21	Oct. 1	5½	145,000,000	7,975,000
Loan of 1958.....	T 24	1970 May 1	3½	200,000,000	7,000,000
Loan of 1965 and 1966.....	CT 19	July 1	5	175,000,000	8,750,000
Canada savings bonds 1957.....	S 12	Nov. 1	4¾	(1)336,301,350	15,974,314
Canada savings bonds 1960.....	S 15	Nov. 1	5	(1)375,117,950	18,755,897
Loan of 1964.....	CT 15	1971 June 1	5	350,000,000	17,500,000
Canada savings bonds 1961.....	S 16	Nov. 1	4½	(1)293,177,450	13,192,985
Conversion loan 1958.....	T 28	1972 Sept. 1	4¾	1,267,203,100	53,856,132
Loan of 1965.....	CT 17	1973 Oct. 1	5	275,000,000	13,750,000
Canada savings bonds 1958.....	S 13	Nov. 1	4½	(1)90,017,600	3,825,748
Canada savings bonds 1964.....	S 19	1974 Nov. 1	4½	(1)851,848,550	38,333,185
Loan of 1959.....	T 36	1975 Oct. 1	5½	310,361,000	17,069,855
Loan of 1965.....	CT 24	Oct. 1	5½	50,000,000	2,750,000
Canada savings bonds 1963.....	S 18	Nov. 1	5	(1)818,813,300	40,940,665
Loan of 1960.....	T 38	1976 Apr. 1	5½	436,198,000	23,990,890
Loan of 1954.....	T 11	June 1	3¾	247,046,500	8,029,011
Canada savings bonds 1962.....	S 17	Nov. 1	5	(1)1,174,623,450	58,731,173
Canada savings bonds 1965.....	S 20	1977 Nov. 1	4½	(1)878,484,750	39,536,314
Loan of 1953 and 1958.....	T 5	1978 Jan. 15	3¾	207,911,500	7,796,681
Loan of 1954.....	T 13	1979 Oct. 1	3¾	343,246,500	11,155,511
Loan of 1962.....	AT 14	1980 Aug. 1	5½	120,000,000	6,600,000
Loan of 1966.....	CT 26	Aug. 1	5½	80,000,000	4,400,000
Conversion loan 1958.....	T 29	1983 Sept. 1	4½	1,992,679,450	89,670,575
Loan of 1963.....	AT 21	1988 June 1	5	100,000,000	5,000,000
Loan of 1964.....	CT 9	June 1	5	50,000,000	2,500,000
Loan of 1964.....	CT 12	1990 May 1	5½	225,000,000	11,812,500
Conversion loan 1956.....	T 15	1998 Mar. 15	3¾	197,045,000	7,389,188
Loan of 1936.....	P 1	Perpetual	3	55,000,000	1,650,000
Three-month treasury bills.....			(2)4.92	1,370,000,000	49,594,000
Six-month treasury bills.....			(2)5.15	780,000,000	29,094,000
Special non-marketable bonds (U.I.C.).....			4½	3,000,000	138,750
Special non-marketable bonds (U.I.C.).....			4½	80,500,000	3,622,500
Special non-marketable bonds (U.I.C.).....			4½	63,500,000	3,095,625
				18,765,620,900	831,597,061
Payable in New York—					
Loan of 1949.....		1974 Sept. 1	2½	(3)65,087,502	1,789,906
Loan of 1950.....		1975 Sept. 15	2½	(3)41,047,527	1,128,807
Loan of 1962.....		1987 Oct. 15	5	(3)264,864,600	13,243,230
				370,999,629	16,161,943
				19,136,620,529	847,759,004

The interest shown is a projection for one year at the annual rates on principal amounts outstanding at March 31, 1966. Where various rates of interest are applicable during the term of a loan the interest rate in effect at March 31, 1966 has been used.

(1) Estimated.

(2) Rate of discount at tender on March 17, 1966.

(3) Conversion rate \$1 U.S. = \$1.08108 Canadian.

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